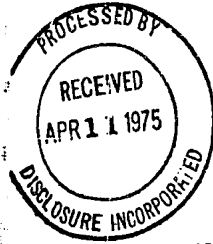
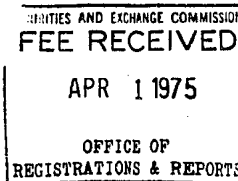


G-034000
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549



Form 10-K



ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1974

Commission file number 1-5026

GAF Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-0762027

(I.R.S. Employer
Identification No.)

140 West 51st Street, New York, New York

(Address of principal executive offices)

10020

(Zip Code)

Registrant's telephone number, including area code (212) 582-7600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Preferred Stock, par value \$1.00 per share	New York Stock Exchange
Common Stock, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes ☒ No

DISCLOSURE ^(R) IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

INFORMATION REQUIRED FOR FORM 10-K

PART I

Item 1. Business.

Information as to the Registrant's business, including its lines of business required by this item, is contained under the caption "Description of Business" in the Preliminary Prospectus, dated March 31, 1973 (hereinafter referred to as the "Preliminary Prospectus") included in Post-Effective Amendment No. 3 to the Registration Statement (Registration No. 2-41036), filed with the Securities and Exchange Commission on March 31, 1975 (hereinafter referred to as the "Post-Effective Amendment"), a copy of which prospectus is included in this report as Annex A.

Item 2. Summary of Operations.

The summary of operations for the Registrant and management's discussion and analysis required by this item is contained under the caption "Consolidated Statement of Income" in the Preliminary Prospectus included in the Post-Effective Amendment.

Effective with the year ended December 31, 1974, the Registrant changed its method of accounting for dyestuffs and pigments inventories from the average cost method to the last-in, first-out ("LIFO") method. See Note A of notes to Consolidated Statement of Income. The change to the LIFO method was made to more realistically match current costs with current revenues.

Item 3. Properties.

Information as to the location and general character of the Registrant's principal physical properties required by this item is contained under the caption "Description of Business—Facilities" in the Preliminary Prospectus included in the Post-Effective Amendment.

Item 4. Parents and Subsidiaries.

The Registrant has no parent.

All subsidiaries named below are included in the Consolidated Financial Statements.

	State or Country of Incorporation	Percentage of Voting Securities Owned
United States		
Genanil Realty Corporation	New York	100
Lenco Photo Products, Inc.	Delaware	100
GAF Export Corporation	Delaware	100
GAF Communications, Inc.	Delaware	100
GAF International Corporation	Delaware	100
GAF Realty Corporation	Delaware	100
Brazil		
GAF do Brasil	Brazil	100
Canada		
GAF (Canada) Limited	Dominion of Canada	100
Mexico		
GAF Corporation de Mexico, S.A. de C.V.	Mexico	100
Europe		
GAF (Belgium) N.V.	Belgium	100
GAF (Denmark) A/S	Denmark	100
GAF (France) S.A.	France	100
GAF (Deutschland) G.m.b.H.	Germany	100
GAF (Great Britain) Limited	England	100
GAF (Ireland) Limited	Ireland	100
GAF (Italy) S.r.l.	Italy	100
GAF (Nederland) B.V.	Netherlands	100
GAF (Norge) A/S	Norway	100
GAF (Osterreich) G.m.b.H.	Austria	100
GAF (Svenska) AB	Sweden	100
GAF (Switzerland) A.G.	Switzerland	100
Helioprint Hellas S.A.	Greece	100
Asia		
GAF Japan Ltd.	Japan	100
Australia		
GAF (Australasia) Pty Limited	Australia	100
GAF (1972) Pty Limited	Australia	100

Not included in the above schedule or consolidated in the Consolidated Financial Statements are other subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary. Individual financial statements of such subsidiaries have been omitted.

The Registrant owns 49% of the common stock of Chemical Developments of Canada, Limited, a Canadian corporation, which is included in the consolidated financial statements on the equity method.

Item 5. Pending Legal Proceedings.

Information as to material pending legal proceedings required by this item is contained under the caption "Description of Business—Litigation" in the Preliminary Prospectus included in the Post-Effective Amendment.

Item 6. Increases and Decreases in Outstanding Securities.

	<u>\$1.20 Convertible Preferred Stock</u>	<u>Common Stock</u>
Number of shares outstanding at December 31, 1973	3,105,609	13,673,279
Conversion of Preferred Stock:		
April 18, 1974	(20)	25
October 4, 1974	(10)	12
December 3, 1974	(200)	250
Purchase of treasury shares:		
September 25, 1974		(495,600)
September 24, 1974	(68,400)	
November 26, 1974	(8,000)	(76,400)
Shares reacquired under the Restricted and Unrestricted Stock Purchase Plan:		
January 9, 1974		(2,000)
March 5, 1974		(2,000)
May 12, 1974		(1,600)
May 15, 1974		(15,000)
May 31, 1974		(2,000)
July 15, 1974		(2,000)
August 1, 1974		(5,000)
August 2, 1974		(2,000)
August 31, 1974		(5,000)
November 7, 1974		(2,000)
December 2, 1974		(1,600)
December 2, 1974		(40,200)
Shares issued under incentive compensation plan:		
May 1, 1974	120	
June 1, 1974	304	
July 8, 1974	173	
October 1, 1974	35	632
Sale of treasury shares under the Restricted and Unrestricted Stock Purchase Plan:		
April 2, 1974		5,000
Number of shares outstanding at December 31, 1974	<u>3,029,011</u>	<u>13,142,766</u>
Number of stock options outstanding at December 31, 1973	—	175,400
Options granted—February 11, 1974		68,000
Options terminated—various dates		(65,350)
Number of stock options outstanding at December 31, 1974	<u>—</u>	<u>178,050</u>
	<u>5% Convertible Subordinated Notes</u>	<u>5½% Convertible Subordinated Notes</u>
Principal amount outstanding at December 31, 1973 ..	\$ 26,700,000	\$3,600,000
Annual prepayment of principal on April 1, 1974 ...		(200,000)
Repurchased and cancelled:		
February 1, 1974	\$(15,185,000)	
February 15, 1974	(600,000)	
May 31, 1974	(2,715,000)	(18,500,000)
Principal amount outstanding at December 31, 1974 ..	<u>\$ 8,200,000</u>	<u>\$3,400,000</u>

Registrant's Form S-K for December 1974 (Commission File No. 1-5026) is incorporated by reference as a description of other securities sold in reliance upon an exemption from registration provided by Section 4(2) of the Securities Act of 1933.

Item 7. Approximate Number of Equity Security Holders at February 28, 1975.

(1) Title of Class	(2) Number of Record Holders
Preferred Stock (\$1 par value)	9,000
Common Stock (\$1 par value)	72,900
5% Convertible Subordinated Notes	19
5½% Convertible Subordinated Notes	3

Item 8. Executive Officers of the Registrant.

The names and ages of the executive officers of the Registrant as of March 26, 1975, the date from which they have served as officers and their present positions with the Registrant are as follows:

Jesse Werner	58	January 1959	Chairman of the Board and President
Philip B. Dalton	51	September 1964	Executive Vice President
Juliette M. Moran	57	October 1967	Executive Vice President
James T. Sherwin	41	June 1971	Executive Vice President
James M. Cloney	55	August 1966	Senior Vice President
Joseph G. Hall	55	May 1970	Senior Vice President
Frank T. Campagna	49	July 1973	Group Vice President (International)
R. Power Fraser	51	June 1963	Group Vice President (Building Products)
N. Paul Klaas	49	January 1972	Group Vice President (Chemicals)
Raymond J. Wilcox	43	January 1972	Group Vice President (Photo & Repro)
Raymond Addeo	56	January 1972	Vice President (Photo & Repro Marketing)
John J. Butler	41	October 1972	Vice President (Building Products Marketing)
George F. Dappert	53	November 1974	Vice President (Chemical Manufacturing)
Thomas A. Dent	53	October 1967	Vice President (Technical Services)
Edward J. Devlin	49	January 1974	Vice President and Controller
Leo J. Faneuf	49	November 1974	Vice President (Building Products Manufacturing)
Alfred Geduldig	39	December 1974	Vice President (Public Relations)
John F. Gow	55	June 1971	Vice President (Personnel Relations)
Simon W. Kantor	49	August 1972	Vice President (Research and Development)
Frederick W. McNabb, Jr. ...	42	November 1974	Vice President, General Counsel and Secretary
Richard C. Mullen	47	November 1974	Vice President (Photo & Repro Manufacturing)
Jay R. Olson	41	September 1970	Vice President and Treasurer
Alfred P. Rimlinger	58	January 1972	Vice President (International Services)
Jack Scheckowitz	47	January 1972	Vice President (Advertising and Promotion)
Raymond W. Smith	36	November 1974	Vice President (Chemical Marketing)
Richard F. Smith	36	November 1974	Vice President (Commercial Development)

All of the executive officers, except Messrs. Dappert, Faneuf, McNabb, Mullen, R. W. Smith and R. F. Smith, who were elected at a meeting of the Board of Directors on November 20, 1974, and Mr. Geduldig, who was elected at a meeting of the Board of Directors on December 16, 1974, were elected by the Board of Directors on April 23, 1974. All of the executive officers were elected to serve until the first meeting of the Board following the next Annual Meeting of Stockholders.

All of the executive officers named above have been in the employ of the Registrant or its subsidiaries for more than five years except as follows: Prior to joining the Registrant in 1974 Frederick W. McNabb, Jr. was Vice President, General Counsel and Secretary of Continental Investment Corporation since 1971 and prior to that was a partner in the law firm of Goldstein, Goldman, Kessler & Underberg. Edward J. Devlin was Senior Vice President—Administration of The Duplan Corporation from 1972 until he joined the Registrant in 1973; prior thereto he was Vice President, Finance and Administration, Consumer Products Division of Gulf & Western Industries,

Inc. from 1969 to 1972. Alfred Geduldig joined the Registrant in 1974 and prior to that had been a public affairs executive with Mobil Oil Corporation. Simon W. Kantor was Manager of the Polymer Chemistry Branch of the General Electric Company Research Development Center in Schenectady, New York from January 1968 until he joined the Registrant in August 1972. N. Paul Klaas was Executive Vice President of Wyomissing Corporation for more than five years prior to 1971 when he joined the Registrant. Jay R. Olson was Vice President and Treasurer of Diversa-Graphics, Inc. from 1969 until he joined the Registrant in 1970. Prior to joining the Registrant in 1971, Richard C. Mullen was Director of Manufacturing for Beaverite Products Co., Inc.

Item 9. Indemnification of Directors and Officers.

Item 9 is omitted pursuant to General Instruction H, as the information required is unchanged from that set forth in the Registrant's Form 10-K filed for the year ended December 31, 1971.

Item 10. Financial Statements and Exhibits Filed.

(a) Financial Statements:

- (1) The following financial statements of GAF Corporation and subsidiary companies are contained on the indicated pages in the Preliminary Prospectus included in the Post-Effective Amendment and are incorporated by reference thereto:

	Page Number in Post-Effective Amendment
Consolidated Statement of Income for the five years ended December 31, 1974	4
Consolidated Balance Sheet as of December 31, 1974 and 1973	30-31
Consolidated Statement of Changes in Financial Position for the five years ended December 31, 1974	32-34
Consolidated Statement of Shareholders' Equity for the five years ended December 31, 1974	35-36
Notes to Consolidated Financial Statements	37-46

- (2) The following schedules for the two years ended December 31, 1974 are attached:

Schedule V—Property, Plant, and Equipment
Schedule VI—Accumulated Depreciation of Property, Plant, and Equipment
Schedule VII—Intangible Assets
Schedule VIII—Accumulated Amortization of Intangible Assets
Schedule XII—Valuation and Qualifying Accounts and Reserves

Separate financial statements of the Registrant are omitted because its total assets, exclusive of investments in and advances to consolidated subsidiaries, constitute 75 per cent or more of the total assets shown by the latest consolidated balance sheet filed and total gross revenues for the latest period for which profit and loss statements are filed, exclusive of interest and dividends received, or equity in income, from the consolidated subsidiaries, constitute 75 per cent or more of the total gross revenues shown by the consolidated profit and loss statements filed.

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto.

The consent of independent certified public accountants to the incorporation by reference of their opinion contained in the Preliminary Prospectus included in the Post-Effective Amendment is included elsewhere herein.

(b) Exhibits:

- B(3)(i) —Term Loan Agreement dated as of December 26, 1974 between GAF Corporation, Morgan Guaranty Trust Company of New York, Credit Suisse, Manufacturers Hanover Trust Company, Chemical Bank, First National City Bank, Irving Trust Company, Bank of America National Trust and Savings Association and Mellon Bank, N.A. (Incorporated by reference to Registrant's Form 8-K for December 1974 (Commission File No. 1-5026) Exhibit (h).)
- B(3)(ii) —Form of Rensselaer County Industrial Development Agency—1974 Series A Pollution Control Revenue Bond (GAF Corporation—Sterling Drug, Inc. Facility) dated July 1, 1974.

Guaranty by the Registrant to Morgan Guaranty Trust Company of New York of 61.7% of the principal and interest on Rensselaer County Industrial Development Agency 1974 Series A Pollution Control Revenue Bond (GAF Corporation—Sterling Drug, Inc. Facility).

Lease Agreement dated as of July 1, 1974 among the Registrant, Sterling Drug, Inc. and Rensselaer County Industrial Development Agency.

Assignment of Lease dated as of July 1, 1974 between Rensselaer County Industrial Development Agency and Morgan Guaranty Trust Company of New York.

Bond Purchase Agreement dated as of July 1, 1974 between Rensselaer County Industrial Development Agency and Morgan Guaranty Trust Company of New York.

Resolution adopted May 1, 1974 authorizing issuance of a pollution control revenue bond by the Rensselaer County Development Agency.

Resolution adopted August 5, 1974 of the Rensselaer County Legislature pledging protection to bondholders.

The Registrant agrees to furnish a copy of the above instruments to the Commission upon request. The above instruments are omitted because the total amount of the securities guaranteed does not exceed 5% of the total assets of the Registrant and its subsidiaries on a consolidated basis.

B(3)(iii) —Form of Broome County Industrial Development Agency—1974 Series A Pollution Control Revenue Bond (GAF Corporation Facility) dated May 1, 1974.

Guaranty by the Registrant to Morgan Guaranty Trust Company of New York of the principal and interest on Broome County Industrial Development Agency 1974 Series A Pollution Control Revenue Bond (GAF Corporation Facility).

Lease Agreement dated as of May 1, 1974 between the Registrant and Broome County Industrial Development Agency.

Assignment of Lease dated as of May 1, 1974 between Broome County Industrial Development Agency and Morgan Guaranty Trust Company of New York.

Bond Purchase Agreement dated as of May 1, 1974 between Broome County Industrial Development Agency and Morgan Guaranty Trust Company of New York.

Resolution adopted February 7, 1974 authorizing issuance of a pollution control revenue bond by the Broome County Development Agency.

Resolution of the Broome County Legislature pledging protection to bondholders.

The Registrant agrees to furnish a copy of the above instruments to the Commission upon request. The above instruments are omitted because the total amount of the securities guaranteed does not exceed 5% of the total assets of the Registrant and its subsidiaries on a consolidated basis.

C(2)(3) —Computation of Earnings per Common Share for the Five Years Ended December 31, 1974.

Exhibit 14 to the Post-Effective Amendment is incorporated by reference.

C(2)(5) —Letter of Messrs. Haskins & Sells, independent accountants, with respect to change in accounting principle.

PART II

Items 11 through 15 are omitted pursuant to General Instruction H since the Registrant has filed with the Commission a definitive proxy statement pursuant to Regulation 14A, which involved the election of directors.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GAF CORPORATION
(Registrant)

By FREDERICK W. McNABB, JR.
Vice President, General Counsel and Secretary

Date March 31, 1975

DISCLOSURE ^(R)

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

SCHEDULE V

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1974
(Dollars in Thousands)

Classification	Balance at January 1, 1974	Additions at Cost	Retirements	Other Changes Add (Deduct)	Balance at December 31, 1974
Land	\$ 10,283	\$ 54	\$ 1,388	\$ 118	\$ 9,067
Land improvements	4,872	208	317	58	4,911
Mineral properties	746	—	—	—	746
Buildings and building equip- ment	100,132	3,197	2,302	(160)	100,867
Machinery and equipment ...	244,163	24,036	13,049	(102)	255,048
Construction in progress	9,408	11,703	54	86	21,143
	<u>\$369,604</u>	<u>\$39,288</u>	<u>\$17,110</u>	<u>\$ —</u>	<u>\$391,782</u>

Note:

(a) Transfers between accounts.

DISCLOSURE[®]

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1973

(Dollars in Thousands)

Classification	Balance at January 1, 1973	Additions at Cost	Retirements	Other Changes Add (Deduct) (a)	Balance at December 31, 1973
Land	\$ 9,946	\$ 346	\$ 9	\$—	\$ 10,285
Land improvements	4,745	239	122	10	4,872
Mineral properties	766	—	20	—	746
Buildings and building equip- ment	106,098	1,817	7,735	(48)	100,132
Machinery and equipment ...	238,517	25,281	19,673	38	244,163
Construction in progress	11,158	(1,750)	—	—	9,408
	<u>\$371,230</u>	<u>\$25,933</u>	<u>\$27,559</u>	<u>\$—</u>	<u>\$369,604</u>

NOTE:

(a) Transfers between accounts.

DISCLOSURE®IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

SCHEDULE VI

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE VI—ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1974
(Dollars in Thousands)

Classification	Balance at January 1, 1974	Additions Charged to Costs and Expenses	Retirements	Other Changes Add (Deduct) (a)	Balance at December 31, 1974
Land improvements	\$ 2,040	\$ 388	\$ 244	\$ (1)	\$ 2,183
Mineral properties	654	3	3	—	654
Buildings and building equip- ment	40,114	4,095	1,366	(52)	42,791
Machinery and equipment ...	105,587	19,726	10,854	53	114,512
	<u>\$148,395</u>	<u>\$24,212</u>	<u>\$12,467</u>	<u>\$—</u>	<u>\$160,140</u>

NOTE:

(a) Transfers between accounts.

DISCLOSURE ^(R) IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES
SCHEDULE VI—ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT
Year Ended December 31, 1973
(Dollars in Thousands)

Classification	Balance at January 1, 1973	Additions Charged to Costs and Expenses	Retirements	Other Changes Add (Deduct)(a)	Balance at December 31, 1973
Land improvements	\$ 1,868	\$ 276	\$ 107	\$ 3	\$ 2,040
Mineral properties	652	2	—	—	654
Buildings and building equip- ment	41,579	4,180	5,706	61	40,114
Machinery and equipment ...	101,267	18,742	14,358	(64)	105,587
	<u>\$145,366</u>	<u>\$23,200</u>	<u>\$20,171</u>	<u>\$—</u>	<u>\$148,395</u>

NOTE:

(a) Transfers between accounts.

DISCLOSURE^(R)IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE VII--INTANGIBLE ASSETS

Year Ended December 31, 1974

(Dollars in Thousands)

Description	Balance at January 1, 1974	Additions at Cost	Charged to Costs and Expenses	Other Changes Add (Deduct)	Balance at December 31, 1974
Cost in excess of net assets acquired	\$35,518	\$—	\$—	\$(230)(b)	\$35,288
Sales routes(a)	4,026	—	—	—	4,026
Patents and trademarks at nomi- nal value(a)	8	3	—	—	11

NOTES:

(a) The balances as of December 31, 1974 shown above are included in the consolidated balance sheet under Other Assets.

(b) Application of income tax benefits realized through liquidation and merger into the Company of certain companies acquired in prior years.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE VII—INTANGIBLE ASSETS

Year Ended December 31, 1973

(Dollars in Thousands)

Description	Balance at January 1, 1973	Additions at Cost	Charged to Costs and Expenses	Other Changes Add (Deduct)	Balance at December 31, 1973
Cost in excess of net assets acquired	\$36,068	\$—	\$398(c)	\$(152)(b)	\$35,518
Sales routes(a)	4,026	—	—	—	4,026
Patents and trademarks at nomi- nal value(a)	4	4	—	—	8

NOTES:

(a) The balances as of December 31, 1973 shown above are included in the consolidated balance sheet under Other Assets.

(b) Application of income tax benefits realized through liquidation and merger into the Company of certain companies acquired in prior years.

(c) In connection with the sale of the inventories and certain other assets of Lenco Photo Products, Inc.

DISCLOSURE [®]IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

SCHEDULE VIII

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES
SCHEDULE VIII—ACCUMULATED AMORTIZATION OF INTANGIBLE ASSETS
 Year Ended December 31, 1974
 (Dollars in Thousands)

Description	Balance at January 1, 1974	Charged to Costs and Expenses	Deductions	Balance at December 31, 1974
Cost in excess of net assets acquired ...	\$215	\$ 75	\$—	\$290
Sales routes	569	201	—	770

SCHEDULE VIII

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES
SCHEDULE VIII—ACCUMULATED AMORTIZATION OF INTANGIBLE ASSETS
Year Ended December 31, 1973
(Dollars in Thousands)

Description	Balance at January 1, 1973	Charged to Costs and Expenses	Deductions	Balance at December 31, 1973
Cost in excess of net assets acquired ...	\$140	\$ 75	\$—	\$215
Sales routes	368	201	—	569

DISCLOSURE[®]

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
 DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

SCHEDULE XII

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE XII—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Year Ended December 31, 1974

(Dollars in Thousands)

Description	Balance at January 1, 1974	Charged to Costs and Expenses	Deductions	Balance at December 31, 1974
Deducted from Accounts Receivable—Trade:				
Allowance for doubtful accounts	\$2,984	\$2,688	\$1,770(a)	\$3,902
Allowance for distributors' rebates ...	765	3,715	3,763	717
Reserve for price adjustments	50	310	323	37
Reserve for Inventories	4,717	5,207	4,205	5,719

NOTE:

(a) Accounts charged off net of recoveries.

SCHEDULE XII

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE XII—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Year Ended December 31, 1973

(Dollars in Thousands)

Description	Balance at January 1, 1973	Charged to Costs and Expenses	Deductions	Balance at December 31, 1973
Deducted from Accounts Receivable—Trade:				
Allowance for doubtful accounts	\$2,322	\$2,157	\$1,495(a)	\$2,984
Allowance for distributors' rebates	708	2,162	2,105	763
Reserve for price adjustments	75	288	313	50
Reserve for Inventories	4,645	3,568	3,496	4,717

NOTE:

(a) Accounts charged off net of recoveries.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GAF CORPORATION:

We hereby consent to the incorporation by reference in your annual report on Form 10-K which you are filing with the Securities and Exchange Commission for the year ended December 31, 1974, of our opinion dated February 7, 1975 appearing in Post-Effective Amendment No. 3 to Registration Statement No. 2-41036 of GAF Corporation filed with the Securities and Exchange Commission on March 31, 1975.

We also consent to our opinion referred to above being considered as comprehending our opinion that the financial schedules, as listed in Item 10(a) of this Form 10-K, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

HASKINS & SELLIS

New York, New York
March 28, 1975

DISCLOSURE®

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

EXHIBIT C(2) (3)

DISCLOSURE ^(R) IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

POST-EFFECTIVE AMENDMENT NO. 3

(On Form S-7)

To

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

GAF Corporation

(Exact name of registrant as specified in charter)

140 West 51st Street

New York, New York 10020

(Address of principal executive offices)

JAMES T. SHERWIN

Executive Vice President

GAF CORPORATION

140 West 51st Street

New York, New York 10020

(Name and address of agent for service)

13-0762027

(L.R.S. Identification No.)

The Commission is requested to mail signed copies of all orders, notices and communications to:

FREDERICK W. McNABB, JR.

GAF CORPORATION

140 West 51st Street

New York, New York 10020

DISCLOSURE ^(R)

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

GAF CORPORATION

CROSS REFERENCE SHEET

Showing the Location in the Prospectus of the Answers to the Items of Part I of Form S-7

<u>Item Number and Caption</u>	<u>Heading or Page in Prospectus</u>
1. Distribution Spread	Cover Page; Description of Stock Purchase Plan
2. Plan of Distribution	Cover Page; Description of Stock Purchase Plan
3. Use of Proceeds to Registrant	Use of Proceeds
4. Selling Security Holders	*
5. Business	Description of Business
6. Statements of Income	Consolidated Statement of Income
7. Capital Stock to be Registered	Description of Capital Stock
8. Debt Securities to be Registered	*
9. Other Securities to be Registered	*
10. Other Financial Statements and Schedules	Financial Statements
11. Statement of Available Information	Inside Front Page

* Item inapplicable or answer in negative and omitted from Prospectus.

DISCLOSURE[®]

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

PRELIMINARY PROSPECTUS DATED MARCH 31, 1975

PROSPECTUS

GAF Corporation

650,000 Shares

Common Stock

(Per Value \$1 Per Share)

Plan for the Sale of Restricted and Unrestricted Common Stock to Employees Who Perform Executive, Administrative or Supervisory Functions (the "Stock Purchase Plan").

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

GAF Corporation (the "Company") is offering by this Prospectus a maximum of 650,000 shares of its Common Stock to those key employees of the Company and its subsidiaries who may from time to time be designated as eligible to purchase shares pursuant to the Stock Purchase Plan of the Company described in this Prospectus. This offer is made at the price and on the terms and conditions contained in a letter agreement which will be entered into by the Company and the offeree at the time an offer is made.

This Prospectus is also applicable to resales or offers, if any, of the shares covered by the Plan by purchasers or their transferees in the event that it might be deemed, the Company not so conceding, that any purchaser or his transferee may be an underwriter as defined in the Securities Act of 1933, with respect to any such shares as may be purchased by him, and in the event that he may effectuate sales of such stock under circumstances requiring a prospectus.

In the event that any of the shares covered by the Plan are reacquired by the Company from purchasers pursuant to the terms thereof, this Prospectus is also applicable to offers or sales, if any, by the Company to the public of such shares on the New York Stock Exchange at the then current market prices.

The Common Stock of the Company is listed on the New York Stock Exchange. The additional 650,000 shares of Common Stock as to which this Prospectus relates have also been listed on the New York Stock Exchange, subject to official notice of issuance to the extent not already issued.

No person has been authorized by the Company to give any information or to make any representations not contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been so authorized. This Prospectus does not constitute an offer of Common Stock in any State or other jurisdiction to any person to whom it is unlawful to make such offer in such State or other jurisdiction.

The date of this Prospectus is _____, 1975

DISCLOSURE

(R) IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

The Company has filed a Registration Statement in respect of the Common Stock to which this Prospectus relates with the Securities and Exchange Commission, Washington, D. C. 20549 under the Securities Act of 1933. This Prospectus does not contain all the information set forth in the Registration Statement, certain portions of which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The information so omitted may be obtained in the Commission's principal office in Washington, D. C. upon payment of the fees prescribed by the Commission.

TABLE OF CONTENTS

	PAGE		PAGE
General	3	Employees	20
Use of Proceeds	3	Patents	20
Consolidated Statement of Income	4	Environmental Control	20
Management's Discussion and Analysis of the Consolidated Statement of Income	9	Facilities	21
Price Range of Common Stock; Dividends ..	11	Litigation	22
Description of Business	11	Description of Capital Stock	24
Photo & Repro Products	12	Common Stock	24
Chemicals	16	\$1.20 Convertible Preferred Stock	24
Building Materials	17	Description of Stock Purchase Plan	25
International Operations	19	Financial Statements—Experts	27
Backlog	19	Opinion of Independent Certified Public Accountants	29
Research and Development	19	Financial Statements	30

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission. Information concerning its directors and officers, their remuneration and options granted to them, its principal holders of securities and any material interests of such persons in transactions with it, as of particular dates, is set forth in proxy statements distributed to its shareholders and filed with the Commission. Such reports, proxy statements and other information can be inspected at the principal office of the Commission at 500 North Capitol Street, N.W., Washington, D. C., and copies of such material can be obtained from the Commission at prescribed rates. The Company's Common Stock, par value \$1 per share, is listed on the New York Stock Exchange, where reports, proxy material and other information concerning the Company also can be inspected.

Except where otherwise indicated, this Prospectus speaks as of its date of issue. Statements contained in this Prospectus as to the contents of any document referred to are not necessarily complete, and in each instance reference is made to the copy of the document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by this reference.

GENERAL

The Company was incorporated in Delaware in 1929 as American I.G. Chemical Corporation and changed its name to General Aniline & Film Corporation in 1939 and to GAF Corporation in 1968. References to the Company, unless the context otherwise requires, include GAF Corporation and its consolidated subsidiaries.

In 1942 over 90% of the Company's then outstanding stock was vested by the Federal Government under the Trading with the Enemy Act. After recapitalization of the Company's stock in 1964, the stock owned by the Federal Government was sold in a public offering in March 1965.

Since 1965, the Company has made a number of acquisitions pursuant to which it became engaged in the manufacturing, mining, distributing and selling of various building materials, resilient flooring and industrial products and expanded the scope of its traditional chemical, photographic products and reprographic business systems operations.

The principal executive offices of the Company are located at 140 West 51st Street, New York, New York 10020, telephone number (212) 582-7600.

USE OF PROCEEDS

The net proceeds from the sale by the Company, from time to time, of the Common Stock covered by this prospectus will be added to the general funds of the Company.

**CAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME**

The following five-year Consolidated Statement of Income has been examined by Haskins & Sells, independent certified public accountants, whose opinion with respect thereto appears elsewhere in this Prospectus. This statement should be read in conjunction with the other consolidated financial statements and the notes thereto included elsewhere in this Prospectus.

	Year Ended December 31,				
	1974	1973	1972	1971	1970
	Dollars in Thousands Except Per Share Amounts				
Net Sales (Note C)	\$948,809	\$848,886	\$768,460	\$683,762	\$583,482
Costs and Expenses					
Cost of products sold (Notes A, B and C)	670,554	594,380	535,395	477,236	419,344
Distribution and selling (Note C)	129,686	121,741	110,143	98,098	89,639
Advertising	19,378	18,201	16,697	14,208	10,647
Research and development (Note 1)	15,578	14,420	14,113	12,549	12,656
Administrative and general (Note C)	43,649	38,180	33,989	30,720	22,245
Interest (Note D)	16,792	12,068	10,237	10,359	11,641
Operating loss of discontinued operations (Note C)	—	—	—	4,343	2,644
Total Costs and Expenses	895,637	798,990	720,574	647,523	569,336
Other Income (Charges)					
Gain on reacquisition of 5% convertible notes	5,523	6,359	—	—	—
Office relocation expenses (Note E)	(5,045)	(261)	—	—	—
Phase-out of Linden dyestuff and pigment operations (Note F)	—	(5,942)	—	—	—
Other income—net (Notes G and 2)	2,365	2,000	2,463	1,403	1,436
Total Other Income—Net	2,843	2,156	2,463	1,403	1,436
Profit Before Income Taxes and Extraordinary Items	56,015	52,052	50,349	37,642	15,582
Income Taxes (Notes 1, 1 and 5)	23,522	23,128	22,643	15,735	7,189
Income Before Extraordinary Items (Note H)	32,493	28,924	27,706	21,907	8,393
Extraordinary Items (Note C)	—	—	—	(8,433)	6,300
Net Income (Note H)	\$ 32,493	\$ 28,924	\$ 27,706	\$ 13,474	\$ 14,693
Earnings Applicable to Common Stock					
Net income	\$ 32,493	\$ 28,924	\$ 27,706	\$ 13,474	\$ 14,693
Less preferred stock dividend requirements	3,705	3,726	3,759	3,802	3,795
Earnings applicable to common stock	\$ 28,788	\$ 25,198	\$ 23,947	\$ 9,672	\$ 10,898
Primary Earnings per Common Share (Note 1)					
Income before extraordinary items	\$2.13	\$1.85	\$1.75	\$1.33	\$.34
Extraordinary items	—	—	—	(.62)	.46
Net income	\$2.13	\$1.85	\$1.75	\$.71	\$.80
Fully Diluted Earnings per Common Share (Note 1)					
Income before extraordinary items	\$1.94	\$1.58	\$1.49	\$1.19	\$.38
Extraordinary items	—	—	—	*	.41
Net income	\$1.94	\$1.58	\$1.49	*	\$.79
Cash Dividends Declared					
Per preferred share	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20
Per common share	\$.46	\$.42	\$.40	\$.40	\$.40
Weighted Average Number of Shares of Common Stock Outstanding (in thousands)	13,518	13,631	13,687	13,609	13,594

* Figure omitted because not dilutive.

Numerical note references are to Notes to Consolidated Financial Statements included elsewhere in this Prospectus.

(Notes to Consolidated Statement of Income are on the following pages.)

NOTES TO CONSOLIDATED STATEMENT OF INCOME

NOTE A:

Effective with the year ended December 31, 1974, the Company changed its method of accounting for dyestuffs and pigments inventories from the average cost method to the last-in, first-out (LIFO) method. The change to the LIFO method was made to more realistically match current costs with current revenues. The effect of the change was to reduce the inventory at December 31, 1974, by \$3,852,000 and net income for the year then ended by \$1,766,000 (\$.13 per share—primary; \$.10 per share—fully diluted). The current cost for these inventories determined on an average cost basis exceeds their LIFO valuation by \$3,852,000. There is no effect, from the change, on periods prior to 1974 since the December 31, 1973, inventory as previously reported is the opening inventory under the LIFO method.

NOTE B:

The following inventory amounts were used in computing cost of products sold:

	1974	1973	December 31,		1970	1969
			1972	1971		
			Dollars in Thousands			
Finished goods	\$106,642	\$ 85,344	\$ 86,871	\$ 78,405	\$ 73,203	\$ 76,304
Work in process	43,948	36,694	36,359	33,368	33,755	35,004
Raw materials and supplies	99,865	59,449	48,280	44,631	39,948	40,919
Total	<u>\$250,455</u>	<u>\$181,487</u>	<u>\$171,510</u>	<u>\$156,404</u>	<u>\$146,906</u>	<u>\$152,227</u>

NOTE C:

Extraordinary credits (charges) consist of the following (see Note F):

Year ended December 31, 1970:

Net gain on sale of Texas Amiben production facilities, abandonment of related production facilities, and renegotiation of the Amiben supply contract, less estimated applicable United States income taxes of \$1,044,000	\$ 2,377,000
Net gain on sale of headquarters of English subsidiary, less estimated applicable foreign income taxes of \$143,000	3,923,000
Total	<u>\$ 6,300,000</u>

Year ended December 31, 1971:

Provision for estimated loss on disposal of certain plant facilities and related costs, less estimated reduction of state and local income taxes of \$477,000	<u>\$(18,975,000)</u>
Less estimated credits (provision) for United States income taxes and investment tax credit:	
Current	716,000
Deferred	8,570,000
Excess of investment tax credit recapture over unamortized deferred investment tax credit of \$804,000	<u>(13,000)</u>
Total	<u>9,273,000</u>
Estimated net loss	<u>(9,702,000)</u>
Other items—net (principally reversal of the excess portion of the 1969 provision for loss on disposal of facilities)	277,000
Total	<u>(9,425,000)</u>
Net gain on translation of foreign currencies (Notes 1 and 2)	992,000
Total	<u>\$ (8,433,000)</u>

NOTES TO CONSOLIDATED STATEMENT OF INCOME--(Continued)

The Company's chlorine-caustic operations were discontinued in September 1971, the ethylene oxide and CALSILITE® operations were discontinued in November 1971, and the related production facilities were disposed of in 1972. The estimated net loss and related costs resulting from the disposal of these facilities and an unused quarry, less a gain on the 1971 sale of certain woodlands, amounted to \$9,702,000 as shown in the above summary. The sale of the facilities in 1972 resulted in a loss which was \$20,000 greater than anticipated. This \$20,000 is included in costs and expenses in the 1972 Consolidated Statement of Income.

The following is a summary of the operating loss (see (a) below) of the discontinued operations:

	Year Ended December 31,	
	1971	1970
	Dollars in Thousands	
Net Sales	\$15,266	\$15,224
Cost of Products Sold	18,051	16,149
Directly Related Expenses	1,558	1,719
Total	19,609	17,868
Operating Loss(a)	\$ 4,343	\$ 2,644

(a) The Company reports its operations on the basis of responsibility accounting, whereby the various lines of business are measured after the assignment of only those items of income and expense for which each line of business is directly responsible. Accordingly, the operating losses as shown above are before the allocation of interest expense, the cost of certain functions that serve more than one line of business, miscellaneous expense and income items, and income tax effect.

NOTE D:

Interest is summarized as follows:

	Year Ended December 31,				
	1974	1973	1972	1971	1970
	Dollars in Thousands				
Interest on Long-Term Debt	\$ 9,296	\$ 8,746	\$ 7,718	\$ 8,218	\$ 9,409
Amortization of Debt Discount	164	68	42	43	43
Other Interest	7,332	3,254	2,477	2,098	2,189
Total	\$16,792	\$12,068	\$10,237	\$10,359	\$11,641

NOTES TO CONSOLIDATED STATEMENT OF INCOME—(Continued)

NOTE E:

During 1974, the Company relocated certain staff and administrative activities from its New York City offices to a new facility in Wayne, New Jersey. A reserve has been established for the following costs anticipated to be incurred during the relocation:

Original estimated reserve:

Present value of lease commitments in abandoned facility (less estimated sub-lease income) to be paid through March, 1983	\$ 3,000,000
Estimated employee relocation costs charged to income in first quarter, 1974	1,050,000
Provision for write-off of leasehold improvements	383,000

4,433,000

Estimated employee relocation costs charged to income in second quarter, 1974	1,050,000
---	-----------

5,483,000

Original estimated relocation reserve

The reserve was subsequently reduced as a result of the decision to continue utilization of a portion of the abandoned facility:

Present value of lease commitments	\$(401,000)	
Leasehold improvements	(37,000)	(438,000)

5,045,000

Estimated relocation costs, as adjusted

The reserve was reduced during the year for actual charges resulting from:

Present value of rental payments (less sublease income)	(198,000)
Employee relocation costs	(1,840,000)
Write-off of leasehold improvements	(346,000)

Reserve balance at December 31, 1974	<u>\$ 2,661,000</u>
--	---------------------

NOTE F:

During 1973, the Company curtailed the dyestuff and pigment operations at its Linden, New Jersey plant, resulting in a charge to income of \$5,942,000 (before tax benefit of \$2,882,000), including a write-off of \$4,992,000 of plant and equipment. This charge was included in Other Income (Charges) in the above statement, in accordance with Opinion No. 30, issued in 1973 by the Accounting Principles Board. Similar items in 1970 and 1971 were presented as Extraordinary Items in conformity with the accounting principles then generally accepted. Had Opinion No. 30 been in effect and been applied to these similar items for such earlier years, Net Income for those years would have been the same, but Income Before Extraordinary Items would have been increased (decreased) in the following approximate amounts:

	1971	1970
Income Before Extraordinary Items (Note C)	\$(9,425,000)	\$6,300,000
Primary Earnings per Common Share	(.69)	.46
Fully Diluted Earnings per Common Share	*	.41

* Figure omitted because not dilutive.

NOTES TO CONSOLIDATED STATEMENT OF INCOME—(Continued)

NOTE G:

The Company changed in 1971 to the equity method of accounting for an investment in a 49%-owned company, Chemical Developments of Canada, Limited (CDCL). The Company's equity in the earnings of CDCL, included in other income, amounted to \$610,000, \$191,000, \$240,000 and \$146,000 for the years ended November 30, 1974, 1973, and 1972 and the eleven months ended November 30, 1971, respectively. See Note 3 of Notes to Consolidated Financial Statements for further information.

NOTE H:

A change in the method of accounting for the investment tax credit in 1971 increased Income Before Extraordinary Items, and Net Income as follows:

	Year Ended December 31,			
	1974	1973	1972	1971
Income Before Extraordinary Items, and Net Income	\$1,104,000	\$1,145,000	\$1,355,000	\$1,067,000
Primary Earnings per Common Share08	.08	.10	.08
Fully Diluted Earnings per Common Share	.06	.06	.07	.05

See Note 1 of Notes to Consolidated Financial Statements for further information.

NOTE I:

The provision for income taxes consists of the following:

	Year Ended December 31,				
	1974	1973	1972	1971	1970
	Dollars in Thousands				
State	\$ 2,212	\$ 2,559	\$ 2,144	\$ 509	\$ 185
United States—current	15,681	13,789	14,057	10,167	539
United States—deferred	1,742	3,786	6,023	4,531	4,890
United States investment tax credit ..	(1,448)	(1,399)	(1,521)	(1,139)	—
Amortization of deferred United States investment tax credit arising prior to 1971	(591)	(591)	(608)	(689)	(690)
Deferred investment tax credit	—	—	—	—	123
Foreign	5,926	4,984	2,548	2,356	2,142
Total Income Taxes	<u>\$23,522</u>	<u>\$23,128</u>	<u>\$22,643</u>	<u>\$15,735</u>	<u>\$ 7,189</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

Consolidated net sales for 1974 improved \$99.9 million (12%) over 1973. Price controls, in effect during the early months of the year, delayed pass-through of inflationary cost increases in the Building Materials and Chemical sales groups. On balance, price increases more than compensated for generally lower unit sales volumes (influenced by raw materials shortages) and were the principal contributor to improved sales results. The Photo & Repro group, however, was unable to adequately recover increases in the costs of photographic products.

Costs of products sold for 1974 increased \$76.2 million (13%) from 1973, primarily as a result of inflationary cost increases in all operating groups for most major raw materials, labor and plant operating costs. Furthermore, raw material shortages in early 1974, the abrupt fourth quarter downturn in the economy, and cutbacks in production to reduce inventory levels, made it virtually impossible to keep manufacturing operations fully occupied, thereby having an unfavorable effect on profits. The increase was also attributable to the Company's adoption of LIFO accounting for dyestuffs and pigments inventories at Rensselaer in order to better match inflationary cost and revenue increases in 1974. This reduced profit before taxes and extraordinary items by \$3.9 million, with an attendant favorable income tax and cash flow effect of approximately \$1.8 million.

Administrative and general expenses increased \$5.5 million (14%) in 1974, compared with 1973 as a result of higher staff operating expenses, including increased legal costs (\$1.4 million) and generally higher administrative costs consistent with inflationary trends.

Interest expense for 1974 increased \$4.7 million (39%) over 1973, as a result of record 1974 rates of interest and higher average levels of short-term borrowings.

A \$5.5 million profit was realized in 1974 on the repurchase of 5% convertible subordinated notes in comparison to a similar profit of \$6.4 million in 1973. Office relocation costs of \$5.0 million were provided in 1974 for costs associated with the move of certain administrative activities to Wayne, N. J.

The 1974 provision for income taxes increased only \$0.4 million (1.7%) on a pre-tax income increase of \$4.0 million, as a result of a 2.4 point decrease in the effective tax rate consistent with higher investment tax credits, increased depletion allowance and gains on disposal of properties taxed at lower effective rates.

Net sales for 1973 were \$80.4 million (11%) above the 1972 level principally as the result of substantial increases in worldwide sales volumes, somewhat assisted by pricing which did not, however, fully recover cost increases because of price controls. Cost of products sold increased \$59.0 million (11%) reflecting not only spending increases attendant upon higher volume, but also inflationary pressures—primarily in raw materials.

Distribution and selling expense increased \$11.6 million (11%) during 1973 as a result of significantly increased sales volumes, particularly in the Chemical and Photo & Repro groups. Administrative and general expenses were \$4.2 million (12%) higher in 1973 primarily due to (a) economic cost increases on normal staff operating expenses, (b) acceleration of amortization on restricted stock purchase expense and (c) a loss on a lease termination.

Interest expense increased \$1.9 million (19%) because of higher 1973 interest rates and higher working capital needs brought about by substantially increased levels of sales.

During 1973, the Company began curtailing the Linden, N. J., dyestuffs and pigments operations, resulting in a charge to income of \$5.9 million, including a write-off of \$5.0 million of plant and equipment. The Company also realized a \$6.4 million profit on the repurchase of 5% convertible subordinated notes, as previously mentioned.

The 1973 effective tax rate of 44.4% was 0.6 points below the 1972 rate largely due to higher international profits taxed at lower rates and greater benefit from exporting activities.

The extraordinary items for the years 1970 and 1971 were as follows:

In 1971 the Company decided to discontinue manufacture of chlorine caustic, ethylene oxide and CALSILITE® because of new environmental requirements, other cost increase factors, and/or declining market potential. This resulted in a net \$9.7 million provision for disposal of assets. Accordingly, 1970 results have been restated for these discontinued operations. The 1971 charge was partially offset by a \$1.0 million net gain in translation of foreign currencies. (In 1973 the Company modified its foreign exchange accounting policy to defer net foreign translation gains, in response to major and unprecedented changes in the international monetary markets.)

In 1971 the Company changed its accounting for the investment tax credit to the current recognition method from the deferral method, thereby increasing income by approximately \$1.1 million a year. This change utilizes allowable tax benefits which accompany capital expenditures to mitigate the depressive effect upon earnings of starting costs of new facilities.

In 1970 the extraordinary gain of \$6.3 million consisted of a net \$2.4 million gain on the sale of the Company's Texas production facilities for AMIBEN®, abandonment of its original facility in New Jersey, and renegotiation of the AMIBEN® supply contract. In addition, the Company's English subsidiary realized a net gain of \$3.9 million from the sale of its London headquarters.

[This Part of the Page is Intentionally Left Blank]

PRICE RANGE OF COMMON STOCK; DIVIDENDS

The Company's Common Stock is listed on the New York Stock Exchange. The table below shows for the indicated periods the high and low sales prices of the Common Stock on the New York Stock Exchange.

The closing sale price of the Common Stock on the New York Stock Exchange on March 26, 1975 was 10 $\frac{3}{4}$ per share. All price information contained in the table below was obtained from the National Quotation Bureau, Inc.

	Sales Prices	
	High	Low
1970	16 $\frac{3}{4}$	7 $\frac{1}{4}$
1971	24 $\frac{3}{4}$	12 $\frac{3}{4}$
1972	27	19 $\frac{3}{4}$
1973		
First Quarter	22 $\frac{3}{4}$	14 $\frac{1}{2}$
Second Quarter	15 $\frac{1}{2}$	10 $\frac{1}{2}$
Third Quarter	15 $\frac{1}{4}$	10
Fourth Quarter	15 $\frac{3}{4}$	8 $\frac{1}{4}$
1974		
First Quarter	11 $\frac{3}{4}$	8 $\frac{3}{4}$
Second Quarter	10 $\frac{3}{4}$	8 $\frac{3}{4}$
Third Quarter	8 $\frac{3}{4}$	6
Fourth Quarter	8 $\frac{3}{4}$	6 $\frac{3}{4}$
1975		
First Quarter (to March 26)	11 $\frac{3}{4}$	7 $\frac{3}{4}$

Commencing with the fourth quarter of 1974, the Company increased its quarterly dividend on Common Stock from 11¢ to 13¢ per share. The Company had previously increased its quarterly dividend on Common Stock from 10¢ to 11¢ per share, commencing with the third quarter of 1973. Prior thereto the Company had paid quarterly dividends of 10¢ per share on its Common Stock since 1965. Future dividends on the Common Stock will necessarily be dependent upon future earnings, the financial needs and condition of the Company and other factors. See "Description of Capital Stock" for information as to certain limitations on the payment of dividends.

DESCRIPTION OF BUSINESS

The Company is engaged in the manufacture and sale of: (i) photographic and reprographic products; (ii) chemicals; and (iii) building materials.

During 1974, the Company reorganized its reporting of operations into the following three worldwide product sales groups: (i) Photo & Repro; (ii) Chemical; and (iii) Building Materials.

The following table sets forth for the periods indicated (i) net sales and (ii) direct operating profit of the lines of business of the Company.

The Company reports its operations on the basis of responsibility accounting, whereby the various lines of business are measured after the assignment of only those items of income and expense for which each line of business is directly responsible. Accordingly, the Company does not provide for the allocation of interest and other debt expense, the cost of certain functions that serve more than one line of business, and miscellaneous expense and income items.

	Year Ended December 31,				
	1974	1973	1972	1971	1970
	Dollars in Thousands				
Net Sales					
Photo & Repro	\$351,111	\$330,190	\$295,296	\$260,407	\$223,227
Chemicals	237,099	215,317	193,595	177,288	172,728
Building Materials	360,599	303,379	278,569	246,067	187,527
Total	<u>\$948,809</u>	<u>\$848,886</u>	<u>\$768,460</u>	<u>\$683,762</u>	<u>\$583,482</u>
Direct Operating Profit					
Photo & Repro	\$ 11,749	\$ 16,471	\$ 11,468	\$ 7,403	\$ 2,005
Chemicals	45,733	29,192(a)	24,475	24,334	24,876
Building Materials	43,614	38,820	48,005	44,442	22,813
Total	<u>101,096</u>	<u>84,483</u>	<u>83,948</u>	<u>76,179</u>	<u>49,694</u>
Operating Loss of Discontinued Operations	—	—	—	(4,343)	(2,644)
Interest Expense	(16,792)	(12,068)	(10,237)	(10,359)	(11,641)
Unallocated Corporate Expense—Net	(28,289)(c)	(20,363)(b)	(23,362)	(23,835)	(19,827)
Profit Before Income Taxes and Extraordinary Items	<u>\$ 56,015</u>	<u>\$ 52,052</u>	<u>\$ 50,349</u>	<u>\$ 37,642</u>	<u>\$ 15,582</u>

(a) Includes \$5,947,000 charge for phase-out of Linden dyestuff and pigment operations. See Note F to Consolidated Statement of Income.

(b) Includes \$6,359,000 gain on reacquisition of 5% Convertible Subordinated Notes.

(c) Includes \$5,523,000 gain on the reacquisition of 5% Convertible Subordinated Notes and a charge of \$5,045,000 for office relocation expenses. See Note E to Consolidated Statement of Income.

The principal products, sources of supply, market position and recent developments with respect to the Company's three lines of business and product groups are as follows:

Photo & Repro Products

Products

The photographic and reprographic products sold by the Company consist of the following: *Consumer Photo Products*—including color and black-and-white film (print film, slide film and movie film), still and motion picture cameras and projectors, slide viewers and scenic slide assortments, and VIEW-MASTER®

and TALKING VIEW-MASTER® stereo reels and viewers; *X-ray Products*—including X-ray film and developing chemicals for medical, dental and industrial use; *Graphic Arts Products*—including film, film bases, and chemicals used in photolithography, rotogravure printing, offset printing, photographic type-setting and photoengraving; *Industrial Products*—including film and paper employed in oscillograph recording, mapping and tracing; *Professional Photography Products*—including black-and-white and color still film, color motion picture film, and photographic papers for professional photographic applications, press and industrial photography and professional portraiture; and *Reprographic Business Systems Products*—including diazo reproduction equipment, sensitized reproduction materials used in such equipment, business forms, micrographic equipment and supplies, sensitized paper and toner for electrostatic office copiers, and drafting office supplies.

The Company also offers consumer photo finishing services, and in this connection, in March 1971, acquired the thirteen photo finishing plants and the business and assets relating thereto of Cadence Industries Corporation, for a cash purchase price of approximately \$15,200,000 and the assumption of certain liabilities in connection with such business.

Distribution of the Company's consumer and professional photo products is made through a field sales force consisting in part of the Company's own employees and in part of independent sales representatives or distributors, primarily to mass merchandisers and also to photo specialty shops. The Company's graphic and X-ray photo products are sold in part to distributors, and in part, along with other industrial photo products, directly to users. The reprographic business systems products are sold in part directly by the Company's own employees and in part through independent dealers. The reprographic machines sold by the Company are serviced in part by the Company's own employees and in part by employees of such independent dealers, who are trained by the Company.

Raw Materials and Supplies

The Company purchases from several sources the raw materials and certain components (some of which are manufactured pursuant to its specifications), for the film, paper, slide and motion picture projectors and viewers manufactured by it. The price of silver, which is one of the more important raw materials used in the manufacture of film and photographic paper, increased substantially in 1972, 1973 and early 1974 but is now lower than the record high of February 1974. Average cost of silver consumed by the Company has increased from \$1.50 per troy ounce in 1972 to \$2.15 per troy ounce in 1973 and \$4.38 per troy ounce in 1974. On March 26, 1975 silver was selling at \$4.27 per troy ounce. Competitive factors have limited and still limit the Company's ability to implement price increases related to this increased cost. Accordingly, the increased cost of silver may continue to have a material adverse effect on the earnings of the Company unless substantial price increases can be effected or the price of silver sufficiently declines.

The still and motion picture cameras sold by the Company are manufactured specially for the Company by companies located in Japan and Hong Kong. Acetate film base used by the Company is manufactured by it. Other film base and raw paper used by the Company are purchased from domestic and foreign sources. During 1974, deliveries of polyester base for coating of film products have been delayed intermittently and certain photographic chemical ingredients have been in short supply causing some production delays.

The raw materials and supplies used in the manufacture of reprographic business products are purchased from several sources and, although in some cases parts are built to the Company's specifications,

alternate sources for such parts are available. During 1974 there was a shortage in certain materials used in the manufacture of reprographic business system products. Such materials include paper for business forms and sensitized products, specialty chemicals used in coating sensitized products, and various electrical components. These shortages did not result in any appreciable production curtailment.

Market Position

In general, the Company offers a broad range of photographic products, which is, however, considerably narrower than that offered by Eastman Kodak Company ("Eastman"), the dominant company in the field. In many areas of the photographic industry in the United States, Eastman is dominant, and the Company has only a small share. In addition, there is competition from foreign sources. The Company believes it is the leading producer of stereo viewers and reels.

The Company believes that it is one of the two leading domestic producers of diazo reproduction equipment and diazo papers, plastic films and other diazo coated products. The diazo reproduction process, while suitable for copying engineering and architectural drawings because of its capacity to make larger copies, is limited in general applicability by the need for a translucent master sheet printed only on one side.

The field of business forms produced pursuant to customer specifications is dominated by another company. The business forms products of the Company are sold principally in the northern part of the United States east of the Mississippi River.

Recent Developments

The Company's film, under an agreement which has been extended to 1976, has been named the official film of Disneyland and Walt Disney World where the Company has established Photo Exhibit Centers and where the Company's photo products are sold through more than 50 retail photo outlets. Similar arrangements have been made at certain other amusement centers, including Sea World and Jungle Habitat.

In 1974, the Company announced a proposed \$9 million expansion of its photo product facilities in Sint-Niklaas, Belgium to consolidate its European photo operations and expand European production of slide and movie projectors and View-Master® products. The facilities also include an injection molding plant, an X-ray and graphic arts film-conversion plant, and a film processing plant for color films and color prints.

Late in 1972, the Company introduced pocket-sized instant loading cameras manufactured specifically for the Company. The Company also introduced color print film for use in such cameras which could be developed with the same chemicals then used to develop the Company's print film employed in standard size instant loading cameras of the Company, but incompatible with the film developing processes required for new film introduced by Eastman in 1972, and described below.

Early in 1972 Eastman introduced pocket-sized instant loading cameras and a new color print film for such cameras requiring different developing chemicals. Soon thereafter Eastman marketed new color print film of the same type in place of the color print film it formerly offered for standard size instant loading cameras and 35 millimeter cameras. The introduction of such new film and the conversion by photo finishers to the different chemicals involved in developing such film had, and may in the future have, the effect of reducing the number of photo finishers who retain the capability of developing the Company's color

print film and thereby reduced, and may further reduce, demand for such film. The Company's photo finishing plants retained the capacity to develop and process both the Company's film and Eastman's new film, and the Company expects to retain the capacity for developing and processing its film so long as there is sufficient demand.

Late in 1974 the Company developed a new color print film for pocket-sized instant loading cameras, standard size instant loading cameras and 35 millimeter cameras which could be developed with the same chemicals used in developing Eastman's new film. The Company expects to begin shipments in Spring of 1975 of the new film for pocket-size instant loading cameras, and, in Fall of 1975, additional shipments of the new film for other cameras. Full production of the new film has been delayed by difficulty in obtaining supplies of certain chemicals used in its manufacture.

On April 30, 1973, the Company filed an antitrust action against Eastman in the U. S. District Court for the Southern District of New York seeking treble damages in an unstated amount and certain equitable relief, including the division of Eastman into ten separate and independent businesses, the dedication to the public of the trademark "Kodak" and the license and disclosure of all Eastman's present and future photographic patents and know-how.

The Company stated in its Complaint that it is the last remaining domestic competitor to Eastman in the manufacture of conventional amateur photographic film. The Company alleged that Eastman has forestalled innovation in the development of products incompatible with those of Eastman, and has made numerous changes in its products in order to make the products of its competitors unmarketable. The Complaint further alleged that Eastman has, in many areas of the photographic industry, monopolized the production and sale of photographic supplies, restrained trade, foreclosed markets, made illegal acquisitions and engaged in various other illegal acts and practices.

Eastman has filed an Answer denying the material allegations of the Complaint, and the case is presently in the pre-trial discovery stage.

A favorable decision in the suit could have a favorable effect upon the Company's photographic business whereas an adverse decision could result in the continuation of the present adverse competitive position of the Company and have significant implications concerning the future of the Company as a manufacturer of consumer, industrial and professional film products. The outcome of the litigation cannot be predicted at this time.

In September 1973 the Company sold the inventories and certain other assets of Lenco Photo Products, Inc. ("Lenco") to Interphoto Corporation and appointed Interphoto as a distributor in the United States of certain lines of the Company's slide projectors and accessories. Lenco was a separate marketing component of the Photo Products Group, distributing certain slide projectors manufactured by the Company and certain other photographic supplies and equipment manufactured by others.

In January 1974 the Company acquired the business and assets of Mohawk Industrial Laboratories, Inc., a small company engaged in the manufacture and marketing of a random access information retrieval system using standard size data processing cards.

The Company has established 15 retail stores under the "printExpress®" service mark and is continuing to test market, through these stores, the offering of printing and copying services and the sale of drafting and art supplies.

Early in 1974, the Company discontinued the manufacture and sale of electrostatic office copying machines.

Chemicals

Products

The Company's chemical products include the following:

Dyestuffs and Pigments—The Company's line of dyestuffs is primarily used in the textile industry and also in the leather and paper industries; its organic pigments are used for coloring many different products, including rubber, plastics, printing inks, natural and synthetic textiles, paints and lacquers; *Surface-active agents*—Surface-active agents (or surfactants) possess detergent, emulsifying, dispersing and wetting properties and are used in the manufacture and compounding of detergents (primarily industrial), insecticides, pesticides, textiles, paper, leather, rubber, plastics and chemicals and in the production and refining of petroleum and mineral products; *High-Pressure Acetylene Derivatives*—The Company has developed and employs techniques for processing acetylene, a very explosive gas, under high pressure into a wide variety of acetylene derivatives, with uses in the manufacture of plastics, synthetic fibers, cosmetics, electroplating chemicals, pharmaceuticals, solvents and adhesives; *Specialty and Textile Chemicals*—These include bactericides and fungicides, brighteners, leather tanning and finishing agents, textile treating chemicals, flame retardants, ultraviolet absorbers, solvents, carbonyl iron powders and silver salts; *Industrial Organic Chemicals*—These compounds are used in the production of surfactants, dyestuffs, pharmaceuticals, defoliants, herbicides, growth regulators and other agricultural chemicals, plastic stabilizers, electroplating chemicals, and photosensitive and other chemicals; *Latex Products*—These products include rubber and polymer lattices for rug backings, fabric coatings and paper coatings; latex foam backing for drapery fabrics; and latex adhesives for fabric lamination; and *Other Industrial Products*—These products include wool pressed felts, FEUTRON®, synthetic fiber felts, papermakers felts and GARLO® filter products.

The Company's chemical products are sold to users principally by its own sales personnel and, in some cases, by independent distributors.

Raw Materials

The raw materials used in the production of the Company's chemical products are purchased from a large number of outside sources, in many cases pursuant to supply contracts which are, in general, standard for the industry. Certain of the Company's raw material requirements, including acetylene, are obtained from single or limited sources pursuant to supply contracts. With respect to acetylene, which is supplied to the Company at two locations by separate sources, were either of the sources to be discontinued the development of alternate sources of supply could involve interruption of production and would probably result in substantially increased costs.

In the past, the Company's sources of raw materials have been stable. During 1974, however, the Company has experienced difficulty in obtaining adequate supplies of certain raw materials. In this connection, the Company has been unable to obtain a sufficient supply of acetylene to meet increased requirements, particularly for manufacture of butanediol, at one of its plant locations. In addition, the Company has been unable to meet increased customer demand for chloramben (also known, by a trademark owned by another, as AMIBEX®) because of shortages in certain raw materials required for its production. Further, as a result of shortages of styrene monomer, required for the production of latexes and surfactants, and of phenol and ethylene oxide, required for the production of surfactants, the Company has been unable to satisfy customer demand for these products. During 1974, the Company encountered shortages in certain chemicals used to produce dyestuffs, which have been overcome to date. Finally, in 1974 there were shortages of viscose and polyester fibers used in wool and synthetic felts.

The shortages described above were primarily the result of the overall petrochemical shortage during 1974 in the United States and elsewhere.

Market Position

The Company is the sole United States producer of a complete line of high pressure acetylene derivatives, although it competes with foreign manufacturers, only one of whom is an important factor in the domestic market. The Company believes it is a major supplier in the automotive sound deadening, wool and synthetic fiber felts industries.

In the balance of its chemical business the Company faces competition from many companies, certain of which are substantially larger than the Company and offer a broader range of products. The Company believes that the great size and diversified nature of the chemical industry make it impossible to give a meaningful estimate of the relative position of the Company in this field.

Recent Developments

The Company has entered into an agreement with Chemische Werke Hüls, A. G. ("Hüls") to construct and operate a butanediol manufacturing plant in Marl, West Germany, with a planned annual capacity of approximately 60 million pounds. The plant will be owned and operated by a German joint venture corporation owned in equal shares by Hüls and the Company, and production is planned to begin in 1976. The agreement also includes provisions for Hüls to supply acetylene to the plant from its adjacent acetylene manufacturing plant. Implementation of the agreement is conditioned on approval by governmental authorities in West Germany.

Since 1962, the Company has been manufacturing a herbicidal product called AMIBEN® for and pursuant to specifications furnished by Amchem Products Inc. ("Amchem"). In 1974 the production capacity for this product was expanded. Amchem owns the tradename and patents covering AMIBEN® and is the Company's only potential customer for such product. AMIBEN® faces competition from herbicides of other companies and in the event Amchem's requirements for AMIBEN® should decline substantially, such decline would have an adverse effect on the Company's earnings.

In 1973, the Company phased-out its dyestuff and pigment manufacturing operation in Linden, New Jersey. This decision was caused by severe competition from abroad and certain other economic factors. The Company has transferred certain dyestuff and pigment operations from Linden to its Rensselaer, New York plant where it will also continue to make certain other types of dyestuffs and pigments.

See Note C to Consolidated Statement of Income for the effect of discontinuance of chlorine-caustic and ethylene oxide operations, Note F to Consolidated Statement of Income for effect of discontinuance of the Linden dyestuff and pigment operations, and Note A to Consolidated Statement of Income for the effect of a change to last-in, first-out inventory accounting for dyestuffs and pigments.

Building Materials

Products

The building materials portion of the Company's business includes the manufacture of the following products: asphalt shingles; built-up roofing, consisting of organic and asbestos-based felts; asphalt roof coatings and plastic cements; mineral granules and organic and asbestos dry felt produced primarily for use by the Company's roofing or flooring plants; mineral fiber roof shingles and siding; mineral fiber

building board; mineral fiber canal bulkhead designed and processed to prevent land erosion by either salt or fresh waters; fiberglass insulation and vinyl siding (both purchased for resale); and asphalt and vinyl asbestos floor tiles, adhesives, cove bases and vinyl sheet floor coverings.

The Company sells its products through its own salesmen to wholesalers, retailers, applicators, contractors and builders. Such sales are mostly limited, in the case of building materials other than floor tiles and sheet vinyl, to states east of the Rocky Mountains. Its products are also supplied, on a bid basis, to United States and State agencies. In 1974 the Company opened its own retail outlets for resilient flooring in three cities where available outlets were not deemed satisfactory.

Raw Materials

A major portion of the raw materials used for the manufacture of building materials is purchased from a large number of outside sources and the balance is produced by the Company, including mineral granules, which are used to surface asphalt roofing products.

Raw material ingredients for dry felt, which in the past have been in good supply, are rags, waste paper, pulpwood and wood flour, purchased in the open market at prices which are subject to fluctuation. Asphalt is purchased from major oil refineries and independent operators, in one case pursuant to a long term supply contract. The Company purchases fiberglass material for insulation from a single source.

During 1974 the Company experienced difficulty in obtaining certain raw materials used in the manufacture of building materials. These products include the following: asphalt and dry felt production stock for roofing products; polyvinyl chloride resins and titanium dioxide for vinyl siding and resilient flooring; and plasticizers, solvents and stabilizers for resilient flooring. Such shortages, which in at least two of the Company's plants have resulted in a curtailment or limitation of production, are attributable in part to the overall petrochemical shortage in 1974.

Market Position

The building materials industry is highly competitive. The Company believes that it is one of the leading producers of asphalt roof shingles and built-up roofing, mineral fiber roof and siding shingles, mineral fiber flat sheets, canal bulkhead and vinyl floor coverings.

Recent Developments

As a result of the settlement in May 1970 of a lawsuit commenced in 1966 against The Ruberoid Co., the Company entered into a license agreement with Congoleum Industries, Inc. whereby the Company was licensed to manufacture and sell foamed vinyl flooring which uses a chemical embossing process. In exchange for such license, the Company agreed to pay a royalty equal to 5% of the net sales of such product during the term of the agreement, which has a stated term ending on December 20, 1983, and, in any event, the Company is required to pay a minimum royalty of \$125,000 a year through 1983, which amount is applied against royalties payable in each such year. Royalties paid under this agreement for 1972, 1973 and 1974 amounted to approximately \$1,023,000, \$905,000 and \$718,863, respectively.

In December 1972, the Company completed the construction of a new plant in Mount Vernon, Indiana for the manufacture of asphalt roofing shingles and built-up roofing materials. The plant provides approximately 80,000 square feet of manufacturing space on a 36 acre site and increased the Company's production capacity for these products by 6%.

In 1974 the Company completed a vinyl siding facility at its plant in Gloucester City, New Jersey for the manufacture of exterior siding for sale in the northeastern and north central United States. Shortages of polyvinyl chloride resin and titanium dioxide caused the new facility to operate at less than capacity. The Company also purchases for resale vinyl siding procured from its existing supplier. Shortages of polyvinyl chloride resin also limited 1974 production of sheet vinyl and vinyl tile.

Roofing products constitute a major portion of total sales of the building products group. It is believed that historically a majority of roofing products sold by the Company have been used in re-roofing of existing structures. It is reported that housing starts were at a level of approximately 2,375,000 units in 1972, 2,050,000 units in 1973, and 1,351,000 units in 1974, but unit sales and sales revenues of the Company from roofing products increased in 1973 and 1974 over the then prior years. If housing starts decline further as a result of high interest rates, unavailability of funds, uncertainty in the economy, rising construction and land costs, and environmental restrictions, among other factors, sales of the Company's roofing products could be adversely affected.

International Operations

The Company's international operations, which are consolidated in the net sales and income for the Company's three lines of business and product groups, include foreign distribution of the products manufactured by the Company in the United States and abroad (principally its chemical, flooring, photo and business systems products) and by other suppliers. These operations are conducted primarily in Western Europe, Canada and Australia. For 1972, 1973 and 1974, the Company's international operations, including export sales from domestic operations, accounted for approximately 13%, 16% and 17%, respectively, of its net sales for such years.

In general, during 1972, 1973 and 1974, the ratio of profit to sales in international operations exceeded such ratio in domestic operations, and international operating profits in 1973 were almost double those of 1972. See Note 2 of Notes to Consolidated Financial Statements for information as to foreign operations included in international operations.

Backlog

The Company does not consider backlog to be a material factor in any of its three business and product groups.

Research and Development

Research and development expenses in 1974 were \$15,578,000. Approximately 60% of this amount was used for research investigations to develop new or improved products and processes, while the remaining 40% supported enhancement of existing products and technologies. The latter category includes product quality improvements, process troubleshooting, improved formulations and experimentally-developed new applications data to exploit the full potential of existing company products. Approximately the same proportion of total research and development expenses in 1973 and 1972 was for such applied and development research.

As of December 31, 1974, 298 professional employees were engaged in Company sponsored research and development.

During 1972 the Company relocated several research and development functions to Wayne, New Jersey. See "Facilities" for further details concerning the Wayne site.

Employees

At December 31, 1974 the Company employed 22,213 people. At such date, approximately 9,238 employees in the United States and Canada were represented by unions under contracts which are effective, in most cases, for one or two year periods. Employee relations at all the Company's plants have been generally satisfactory. In 1974 a two-week work stoppage occurred at the Company's Minneapolis roofing plant and a one month work stoppage took place at its Joliet, Illinois, roofing, siding and insulation plant. Manufacturing and shipping operations at the Joliet plant continued during the work stoppage. In 1973 a work stoppage involving contract negotiations occurred at the Vails Gate, New York floor tile plant, lasting one month, and a Company lockout took place at the Tampa, Florida building products plant, lasting two and one-half months, during which manufacturing and shipping operations were continued. In 1972 the Company experienced a 56 day strike at its Whitehall, Pennsylvania sheet vinyl plant following contract termination and in 1971 it experienced a 96 day work stoppage at its Rensselaer, New York chemical plant arising out of contract renewal negotiations and, in 1970, it experienced two extended work stoppages: a 77 day strike at the Mobile, Alabama building products plant and a 54 day shutdown in the Tampa, Florida building products plant. The Company has in effect various benefit plans which form a comprehensive employee security program. These include the Company's Retirement Plan and group insurance arrangements covering life, accident, hospital, surgical and medical insurance. The Company and, in most cases, the employees contribute to the costs of the insurance arrangements. See Notes 1 and 9 of Notes to the Consolidated Financial Statements for further details concerning the Retirement Plan.

Patents

The Company owns approximately 1,750 unexpired United States patents, approximately 2,500 foreign patents and approximately 850 domestic and 3,500 foreign trademarks, and is licensed under many other United States and foreign patents, no one of which, nor group of which, is deemed to be material to the conduct of the Company's business as a whole other than the patents covered by the licenses from Congoleum Industries, Inc., and Amchem described under "Building Materials—Recent Developments" and "Chemicals—Recent Developments", respectively, and a group of patents on photographic products and processes for making photographic film covered by licenses from Eastman.

Environmental Control

By reason of the nature of many of the Company's operations, environmental standards promulgated by various regulatory bodies, many of which regulatory bodies have been recently established by state or local laws or regulations, are having or will have a substantial impact upon the Company. In some cases, the Company has obtained variances which are conditioned upon compliance at some future date and in other cases, it is seeking to work out similar arrangements. In addition, Federal statutes dealing with the protection of the environment, including the Federal Water Pollution Control Act and the Federal Refuse Act, which regulate discharges into navigable waters, and The National Air Quality Standards Act, which regulates air quality and the emission of pollutants, have affected and will increasingly affect the Company. The Company is undertaking additional anti-pollution activities which will undoubtedly be increased in response both to the Company's continuing efforts to deal with environmental problems and to increased Federal, state and local regulation in this area.

In addition, the Federal Occupational Safety and Health Administration ("OSHA") has promulgated numerous regulations dealing with various aspects of the Company's operations, including regulations of permissible levels of asbestos dust in plants. The OSHA regulations applicable to

asbestos processing and fabricating facilities established an occupational work atmosphere of five fibers of asbestos per cubic centimeter of air, to be reduced to an atmosphere of two fibers per cubic centimeter by July 1, 1976. The Company believes that its manufacturing operations are in substantial compliance with the five-fiber standard and the Company believes its facilities will comply with the two-fiber standard by July 1, 1976.

While the exact nature of the environmental control problems which the Company will encounter in the future cannot be predicted, substantial additional capital expenditures and increased operating expenses, the amount of which cannot be estimated at this time, will be occasioned by the Company's continuing effort to deal with environmental problems arising from its activities and to comply with the statutes and regulations referred to above. However, the Company believes that compliance with environmental protection requirements will not adversely affect its competitive position in the industries in which it is engaged. Pollution control requirements resulted in capital expenditures of approximately \$5,800,000 in 1972, \$4,750,000 in 1973, and \$7,780,000 in 1974. The Company expects to invest an additional amount of approximately \$20,000,000 in pollution abatement facilities by the end of 1977, although no assurance can be given that this amount will not be larger in view of the foregoing factors.

On August 30, 1971 the Company entered into an agreement with Rensselaer County Sewer District No. 1 for the construction, operation and maintenance of facilities to intercept and treat the industrial wastes discharged from the Company's Rensselaer manufacturing plant. The Company's obligation for the first year of operation, which is anticipated to commence in late 1975, is presently estimated at between \$260,000 and \$280,000. Of this sum approximately \$100,000 is estimated to be attributable to debt service and the balance to operating and maintenance costs. It is anticipated that operating and maintenance costs will increase in the future, particularly with regard to power and chemicals required in the operation of the treatment plant. It is expected that the debt service obligation will continue for approximately 27 years after commencement. The Company will be obligated to pay a portion of the operating and maintenance costs through June 30, 1990, even though it may cease to use the facility prior to such time.

As of July 1, 1974 the Company and another company, as lessees, entered into a ten year lease, with option to purchase, of pollution control facilities adjacent to the Company's Rensselaer manufacturing plant. The facilities will be shared with the other company and are to be constructed with the proceeds of the pollution control revenue bonds sold on that date by the Rensselaer County Industrial Development Agency in the principal amount of \$5,000,000. The bonds are payable with the proceeds of the lease and are guaranteed as to 61.7% by the Company. On September 26, 1973, and May 24, 1974 similar arrangements were entered into with, respectively, the City of Calvert City and Broome County Industrial Development Agency pursuant to which pollution control revenue bonds were issued in the respective principal amounts of \$2,300,000 and \$2,500,000. These bonds were fully guaranteed by the Company and the proceeds were used in connection with pollution control facilities at the Company's chemical plant in Calvert City and photo products plant at Binghamton. The Company is presently considering the use of similar types of financing for pollution control facilities at at least two other locations.

Facilities

The Company's major plants are as follows:

Chemicals: Calvert City, Kentucky; Linden, New Jersey; Rensselaer, New York; Texas City, Texas; and Glens Falls, New York; Shallowford, Tennessee; Glenville, Connecticut; Joliet, Illinois; Franklin, Massachusetts; Warren, Michigan; Annapolis, Missouri; Erie, New York; Bound Brook, New Jersey; Newburgh, New York; Charmian, Pennsylvania; and Westerly, Rhode Island. The

Company owns rock quarries at Annapolis, Missouri; Charmian, Pennsylvania; and Kremlin, Wisconsin.

Photographic and Reprographic Products: Binghamton, New York; Philadelphia, Pennsylvania; Los Angeles, California; Sint-Niklaas, Belgium; and Progress, Oregon; Vestal, New York; Johnson City, New York; Vernon, New York; Colnbrook, England; Delft, The Netherlands; Shelby, Ohio; and Sydney, Australia.

Building Products: Mobile, Alabama; Long Beach, California; Denver, Colorado; Tampa, Florida; Savannah, Georgia; Joliet, Illinois; Mount Vernon, Indiana; Baltimore, Maryland; Millis, Massachusetts; Minneapolis, Minnesota; Kansas City and St. Louis, Missouri; South Bound Brook, New Jersey; Vails Gate, New York; Erie and Whitehall, Pennsylvania; and Dallas and Houston, Texas.

With the exception of the plants located in Warren, Michigan and Annapolis, Missouri (building only), which plants are leased to the Company, and except for two leased buildings in Philadelphia, the above mentioned properties are owned by the Company in fee. That portion of the plant (building and equipment only) at Texas City, Texas which produces Amiben is owned by Amchem.

The Company also owns or leases many other smaller plants, research laboratories and sales offices and distribution warehouses in the United States and elsewhere.

The Company believes that in general these plants and facilities, which are of widely varying ages and of different types of construction, have been adequately maintained and are in good condition. Each plant has adequate transportation facilities for both raw materials and finished products.

The executive offices of the Company at 140 West 51st Street, and substantially all of the administrative offices of each division, are housed in approximately 176,000 square feet of leased space at 140 West 51st Street and 1180 Avenue of the Americas, New York City.

In July 1972, the Company leased certain laboratory facilities and approximately 100 acres of land in Wayne, New Jersey at which it consolidated a number of its research and development operations. A new 80,000 square foot building, completed in 1974, houses the Company's general administrative and clerical personnel and its principal electronic data processing facilities. The Wayne lease is for a period of 25 years with an option to buy the property at a nominal amount when the lease expires. Annual rentals (the lease is a "net lease" under which the Company is obligated to maintain, repair, insure and pay all taxes on the property) are calculated to allow the lessor to recover the cost of the property, its annual interest costs of 7 7/8% and its other expenses of leasing the property. The Company believes that the useful life of most of the buildings remaining at the scheduled termination of the lease will be relatively short.

Litigation

On April 30, 1973 the Company commenced an antitrust action against Eastman Kodak Company. This action is described under the caption "Photo & Repro—Recent Developments."

On September 7, 1971 the Company commenced an Interference proceeding in the United States Patent Office disputing the United States patents rights of Amchem Products, Inc. ("Amchem") to a plant growth regulator sold by Amchem under its trademark "ETHEL®", and seeking to establish the Company's own priority of inventorship. The Company presently sells the same products under the trademark "CEPHA®" and, under agreement with Amchem, manufactures the product for sale by Amchem. The Company alleges that its employee was the true inventor of the use of the product as a plant growth

regulator. The proceeding was recently dissolved on procedural grounds, but is under review by the Commissioner of Patents and Trademarks. On October 11, 1972 the Company commenced an action in the United States District Court for the Eastern District of Pennsylvania against Amchem seeking to compel Amchem to assign to the Company all Amchem's foreign use patents on the invention. The Company also sought to establish a constructive trust on all Amchem's profits from sale of ETHREL®. Similar actions have been commenced by the Company in England, France and Germany. In January 1975 a German court awarded the Company co-rights to Amchem's German patent, finding that the Company's employee was the original conceiver of the use of the product as a plant growth regulator. The actions in England and France have been dismissed on procedural grounds, but the dismissal in France has been appealed.

On July 18, 1974 the Company and eight other United States manufacturers of dyes were indicted by a federal grand jury in the United States District Court, District of New Jersey. The indictment charged that during and after 1970 the defendants engaged in combination and conspiracy to fix, raise and maintain prices of dyes in the United States in violation of Section 1 of the Sherman Act. At that time the United States also instituted a companion civil action in that court against the same defendants and alleging the same facts. The civil action sought an injunction against the alleged conspiracy and any other conspiracies or practices of a similar import. The eight other defendants in these proceedings were E. I. duPont de Nemours and Company, Verona Corporation, Allied Chemical Corporation, American Color & Chemical Corporation, American Cyanamid Company, BASF Wyandotte Corporation, Ciba-Geigy Corporation and Crompton & Knowles Corporation. The Company had previously provided the grand jury with numerous documents relating to the dyestuffs business and representatives of the Company had given testimony. In October 1974 the Company and the other defendants entered, and the court accepted, pleas of *nolo contendere*, and fines were levied on all defendants. The Company was fined \$45,000. On September 4 and 5, 1974 two treble damage civil actions were commenced against the Company and the same defendants in the United States District Court, Southern District of New York. The complaints alleged, in substance, the same allegations made by the United States in the criminal action, and were purported to be brought by the plaintiffs on their own behalf and on behalf of the class of all purchasers of dyes from the defendants during the period covered by the complaint. The complaints seek treble damages in an unspecified amount and an injunction against continuation of the alleged conspiracy. Subsequent to September 1974 a number of other civil actions have been commenced against the Company based upon substantially the same allegations.

As of March 26, 1975, the Company was a co-defendant in approximately 40 lawsuits involving alleged health claims of non-employees relating to the inhalation of asbestos fibers. In the only such lawsuit which has gone to trial, damages were awarded against a number of co-defendants including the Company. Such decision was affirmed by the United States Court of Appeals for the Fifth Circuit and certiorari denied by the United States Supreme Court. In 1971, the Company discontinued the manufacture of CALSILITE®, a pipe insulation covering, which was the principal insulating material manufactured by the Company containing asbestos fibers. It is anticipated that additional suits may be filed by industrial insulation workers who have been exposed to asbestos dust at numerous construction sites where insulation materials manufactured by the Company and others were used. The Company has insurance coverage with respect to actions of this type. Because premiums paid with regard to such insurance are experience rated, if the Company has an adverse loss experience with respect to such actions, its premiums will be increased to reflect such loss experience. A number of employees and former employees have also filed claims for diseases associated with the inhalation of asbestos fibers under applicable workmen's compensation laws. The Company is self-insured with respect to these claims, a number of which have been settled. The Company does not believe that the disposition of these existing actions (or workmen's

compensation claims) will have a material adverse effect on the Company's earnings or financial position, although the effect on the Company of actions of this nature which may be filed in the future cannot be predicted at this time.

There are certain other lawsuits and claims pending against the Company. The Company believes that the ultimate disposition of these legal proceedings will not materially affect its financial position.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 25,000,000 shares of Common Stock, par value \$1.00 per share, and 6,000,000 shares of Preferred Stock, par value \$1.00 per share. On February 28, 1975, 13,763,715 shares of the Company's Common Stock were issued (including 620,949 shares held in treasury) and 3,105,411 shares of the Company's Preferred Stock, designated as its \$1.20 Convertible Preferred Stock (the "Convertible Preferred") were issued (including 76,400 shares held in treasury).

Common Stock

All outstanding shares of Common Stock rank equally as to voting rights, dividends and upon liquidation and are fully paid and nonassessable. The Common Stock is not entitled to any preemptive rights and is not subject to redemption. Except as set forth under "Convertible Preferred—Voting Rights", Common and Convertible Preferred vote together as one class.

Based upon the Company's stock records and upon information furnished to the Company, no person owns of record, or is known by the Company to own beneficially, more than 10% of the Company's Common Stock.

During the period from February 21, 1973 through April 30, 1973, the Company purchased 150,000 shares of its Common Stock in the open market for reissuance in connection with the exercise of employee stock options and for sale to employees under the Stock Purchase Plan. In 1974 the Company repurchased in the open market an additional 495,000 shares of Common Stock and 76,400 shares of Convertible Preferred for general corporate purposes.

The payment by the Company of dividends, other than dividends payable in the Company's capital stock, is subject to restrictions imposed by certain instruments relating to the Company's long-term debt. Under the most restrictive of these provisions approximately \$348,214,000 of the Company's \$358,669,000 of shareholders' equity at December 31, 1974 was not available for dividends. The payment of dividends by the Company on its Common Stock will also be subject to prior payment of cumulative dividends of \$1.20 per share per annum on the Convertible Preferred. Otherwise the Company may pay dividends on its Common Stock out of funds legally available.

\$1.20 Convertible Preferred Stock

Dividend and Liquidation Rights

The holders of the Convertible Preferred are entitled to receive, prior to the payment of dividends on Common Stock, cumulative cash dividends at the rate of \$1.20 per share per annum. Upon any voluntary or involuntary liquidation, dissolution or winding up, before any distribution may be made to the Common stockholders, the holders of the Convertible Preferred are entitled to receive \$27.50 per share plus an amount equal to all accrued and unpaid dividends.

DISCLOSURE ^(A)

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

Voting Rights

Each holder of the Convertible Preferred is entitled to one vote for each share held. Except as set forth below, the Convertible Preferred and Common Stock vote together as one class.

If dividends are in arrears on the Convertible Preferred in an aggregate amount at least equal to six quarterly dividends, the holders of the Convertible Preferred voting as a class will be entitled to elect two directors until all arrears in dividends have been paid and dividends for the current quarterly period have been declared or paid.

The consent of the holders of at least two-thirds of the Convertible Preferred is necessary to authorize, or increase the authorized amount of, any class of stock of the Company ranking prior to the Convertible Preferred as to dividends or assets or to change any of the provisions of the Company's Certificate of Incorporation so as to affect materially any of the powers, preferences and rights of the Convertible Preferred. The consent of the holders of at least the majority of the Convertible Preferred is necessary to increase the authorized number of shares of Preferred Stock or authorize, or increase the authorized number of, shares of stock of equal rank as to dividends or upon liquidation rights.

Redemption Provisions

The Convertible Preferred is callable for redemption in whole or in part, at the option of the Company on 30 days' notice, at \$29.00 per share through May 31, 1975, \$28.50 per share thereafter through May 31, 1976, \$28.00 per share thereafter through May 31, 1977 and \$27.50 per share thereafter, plus, in each case, an amount equal to accrued and unpaid dividends to the redemption date.

Conversion Rights

Each share of Convertible Preferred is convertible into the Company's Common Stock at the rate of 1.25 shares of Common Stock for each share of Convertible Preferred. The conversion rate is subject to adjustment from time to time upon the occurrence of specified events in order to prevent dilution of the appropriate number of shares of Common Stock to be received upon conversion. No fractional shares will be issued upon conversion, but any fractions will be adjusted in cash on the basis of market value. No adjustments will be made upon conversion in respect of any accrued but unpaid dividends.

General

The Convertible Preferred is not liable for further calls or subject to assessment. It has no preemptive or other subscription rights and is not subject to sinking fund provisions.

Shares of Convertible Preferred which have been redeemed, purchased and retired, or converted will have the status of authorized and unissued shares of Preferred Stock.

DESCRIPTION OF STOCK PURCHASE PLAN

In April 1969 the stockholders of the Company approved the Stock Purchase Plan, under which an aggregate of 650,000 shares of the Company's Common Stock was reserved for sale to designated employees under sixty years of age. The Stock Purchase Plan authorizes the sale of shares subject to prescribed restrictions as to disposition ("Restricted Shares") and without such restrictions ("Unrestricted Shares"). Restricted Shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise

disposed of, except as provided in the Stock Purchase Plan, for a period of five years from the date of purchase or such further period or periods as may be provided by the Committee of the Board which administers the Plan. If an employee's employment terminates for any reason, other than retirement subsequent to the fifth anniversary of the date of purchase or death subsequent to the completion of five years of continuous employment, the Company, or the subsidiary from which the employee purchased Restricted Shares, has the right to repurchase such shares which still remain subject to restriction at the price which the employee paid for them. Any shares so repurchased may be resold by the Company. Under the terms of the Plan as originally adopted the price of Unrestricted Shares had to be at least 80%, and the price of Restricted Shares had to be at least 20%, of the closing price of the Company's Common Stock on the New York Stock Exchange on the last trading date on which such stock was traded preceding the date on which an employee was designated as one to whom shares might be offered for sale. Pursuant to a judgment of the U.S. District Court for the Southern District of New York in two shareholder derivative actions which became final on February 5, 1973, the Company was authorized to consummate a settlement approved by the Court which included, among other things, the adoption by the Board of Directors of the Company of a resolution amending the Plan to provide that future sales of Restricted Shares under the Plan shall be at a price of not less than 50% of the closing price of the Company's Common Stock on the New York Stock Exchange on the last trading date on which such stock was traded preceding the date on which an employee is designated as one to whom shares may be offered for sale. The purchase of shares under the Stock Purchase Plan obligates an employee to remain in the employ of the Company or its subsidiaries for not less than two years in the case of employees who purchase Unrestricted Shares and for not less than three years in the case of employees who purchase Restricted Shares.

Pursuant to the Plan, during 1974 and 1977 the Company sold Restricted Shares to a number of employees, including 15,000 shares each to Miss Juliette Moran and Mr. James T. Sherwin, executive vice presidents of the Company, and 75,000 shares to all present officers and directors as a group. The purchase price for each such share so sold was \$5.375 and, in each such case, the price was approximately 50% of the closing price of the Company's Common Stock on the New York Stock Exchange on the last trading date on which such stock was traded preceding the date on which each employee was designated as one to whom such shares would be offered for sale. The Company received the entire purchase price of such shares in cash at the time of purchase.

Pursuant to the Plan, prior to 1974 the Company sold Restricted Shares to a number of employees, including 62,000 shares to Dr. Jesse Werner, President and Chairman of the Board, 25,000 shares to Mr. Philip Dalton, 10,000 shares to Miss Juliette M. Moran, 10,000 shares to Mr. James T. Sherwin, who are all executive vice presidents, and 193,000 shares to all present officers and directors as a group. Of the shares presently outstanding from such sales, the Company received, at the time of purchase, a minimum of twenty-five per cent of the purchase price in cash and the balance in six-year promissory notes bearing interest at the rate of six per cent per annum, certain of which require partial prepayments of principal. The promissory notes are secured by pledges of all of the shares purchased. The purchase price for shares of such stock was \$5 $\frac{3}{4}$, which was at least 20% of the closing price of the Company's Common Stock on the New York Stock Exchange on the last trading date on which such stock was traded preceding the date on which such employee was designated as one to whom such shares would be offered for sale. Except for the notes of Messrs. Werner, Dalton and Miss Moran, which were

prepaid in full in May and June of 1971, and the notes of two deceased former employees which have been paid in full, the notes referred to herein are outstanding except with respect to the required prepayments and, in one case, optional prepayment, made thereon.

As of March 26, 1975, 70 employees, including officers and directors, held an aggregate of 356,000 Restricted Shares for which they have paid, to such date, an aggregate of \$1,718,916 in cash and, in addition, have given the Company promissory notes with aggregate outstanding balances on such date of \$209,396. Cash payments of \$1,276,050 were made at the time of purchase of the Restricted Shares, and at that time \$652,262 aggregate principal amount of promissory notes were given for the balance of the purchase price. These Restricted Shares do not include 4,000 shares held by the estates of two deceased employees, as to which restrictions have been removed. Certain shares so sold (which shares are included in this Prospectus) were not registered under the Securities Act of 1933, as amended, at the time of issuance since their sale did not involve a public offering, as such term is used in Section 4(2) of such Act.

As of March 26, 1975, there were available for sale to employees under the Plan 289,000 additional shares. The Company does not presently intend to sell shares under the Plan on a basis other than receipt of the entire purchase price in cash at the time of purchase.

During 1974 the restrictions on disposition lapsed as to 30,800 Restricted Shares sold to employees in 1969, and restrictions on an additional 30,600 shares will lapse in 1975.

FINANCIAL STATEMENTS—EXPERTS

The financial statements of the Company included in this Prospectus have been examined by Haskins & Sells, independent certified public accountants, as stated in their opinion appearing herein and in the Registration Statement and have been so included in reliance upon such opinion given upon their authority as experts in accounting and auditing.

[THIS PAGE INTENTIONALLY LEFT BLANK]

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GAF CORPORATION:

We have examined the consolidated balance sheet of GAF Corporation and its consolidated subsidiaries as of December 31, 1974 and 1973, and the related consolidated statements of income, shareholders' equity and changes in financial position for the five years ended December 31, 1974. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies at December 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the five years ended December 31, 1974, in conformity with generally accepted accounting principles which have been applied on a consistent basis, except for the changes (with which we concur) in methods of accounting for an investment in a 49% owned company and the investment tax credit in 1971, of determining income before extraordinary items with respect to the disposition of certain facilities in 1973, and of accounting for certain inventories in 1974, as described in Notes A, F, G, and H to the consolidated statement of income.

HASKINS & SELLS

New York, New York
February 7, 1975

DISCLOSURE®

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31,	
	1974	1973
	Dollars in Thousands	
CURRENT ASSETS		
Cash	\$ 15,072	\$ 13,855
Marketable securities, at cost which approximates quoted market value	163	195
Accounts receivable—trade, less allowance for doubtful accounts— 1974, \$3,902,000; 1973, \$2,984,000	153,965	150,763
Accounts receivable—other	7,983	6,909
Inventories (Notes 1 and A)		
Finished goods	106,642	85,344
Work in process	43,948	36,694
Raw materials and supplies	99,865	59,449
	250,455	181,487
Prepaid expenses	8,553	9,357
Total current assets	436,191	362,566
PROPERTY, PLANT AND EQUIPMENT AT COST (Notes 1 and 4)		
Land and land improvements	14,724	15,901
Buildings and building equipment	100,867	100,132
Machinery and equipment	255,048	244,163
Construction in progress	21,143	9,408
Total, property, plant and equipment	391,782	369,604
Less accumulated depreciation	160,140	148,395
Property, plant and equipment—net	231,642	221,209
OTHER ASSETS		
Cost in excess of net assets acquired (Note 1)	34,998	35,303
Other assets	5,332	5,395
Other investments and advances (Note 3)	2,297	2,543
Total other assets	42,627	43,241
TOTAL ASSETS	<u>\$710,460</u>	<u>\$627,016</u>

See Notes to Consolidated Financial Statements

Alphabetic note references are to the Notes to Consolidated Statement of Income included elsewhere in this Prospectus

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

LIABILITIES

	December 31,	
	1974	1973
	Dollars in Thousands	
CURRENT LIABILITIES		
Notes payable (Note 6)		
Banks	\$ 13,368	\$ 2,907
Commercial paper	6,240	13,850
Other	12,823	5,677
Current portion of long-term debt (Note 6)	5,243	893
Accounts payable		
Trade	39,225	38,306
Other	3,091	5,543
Accrued liabilities		
Payroll	3,708	4,366
Retirement plan	6,801	4,570
Other taxes	4,078	4,456
Interest	1,845	1,627
Other	23,613	17,192
United States and foreign income taxes	10,614	7,471
Total current liabilities	<u>130,649</u>	<u>111,858</u>
LONG-TERM DEBT LESS CURRENT PORTION (Note 6)	<u>181,173</u>	<u>135,716</u>
DEFERRED CREDITS		
Deferred income taxes (Notes 1, 5 and 1)	31,884	30,533
Deferred investment tax credit (Note 1)	4,298	4,889
Deferred foreign currency translation gains (Notes 1 and 2)	168	2,166
Total deferred credits	<u>36,350</u>	<u>37,588</u>
OTHER LIABILITIES	<u>3,619</u>	<u>1,872</u>
COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)		

SHAREHOLDERS' EQUITY

Preferred Stock, \$1 par value; authorized 6,000,000 shares of \$1.20 convertible series; issued—1974, 3,165,411 shares; 1973, 3,105,009 shares; at assigned value of \$1.25 per share (liquidation value 1974, \$83,298,000) (Note 7)	3,882	3,881
Common Stock \$1 par value; authorized 25,000,000 shares; issued—1974, 13,763,715 shares; 1973, 13,763,428 shares (Note 7)	13,764	13,763
Additional paid-in capital	52,791	52,053
Retained earnings	294,189	271,619
Total	<u>364,626</u>	<u>341,316</u>
Less stock held in treasury, at cost:		
Common—1974, 620,949 shares; 1973, 90,149 shares	5,025	1,334
Preferred—1974, 76,400 shares; 1973, None	932	—
Total shareholders' equity (Note 6)	<u>358,669</u>	<u>339,982</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$710,460</u></u>	<u><u>\$627,016</u></u>

See Notes to Consolidated Financial Statements

Alphabetic note references are to the Notes to Consolidated Statement of Income included elsewhere in this Prospectus

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31,				
	1974	1973	1972	1971	1970
	Dollars in Thousands				
Funds Provided					
From operations:					
Income before extraordinary items	\$ 32,493	\$ 28,924	\$ 27,706	\$ 21,907	\$ 8,393
Charges (credits) not affecting working capital:					
Depreciation	24,212	23,200	25,400	24,550	22,023
Gain on reacquisition of 5% Convertible Notes	(5,523)	(6,359)	—	—	—
Phase-out of Linden dyestuff manufacturing (Note F)	—	5,942	—	—	—
Office relocation expenses (non-current portion) (Note E)	1,858	—	—	—	—
Deferred income taxes (non-current portion)	1,351	1,769	2,847	2,462	3,982
Amortization of deferred investment tax credit	(591)	(591)	(608)	(689)	(567)
Amortization of deferred charges and other assets	569	387	358	240	44
Other	114	794	(132)	387	452
Funds provided from operations exclusive of extraordinary items	54,483	54,066	55,571	48,857	34,327
Extraordinary items	—	—	—	(8,433)	6,300
Charges (credits) included in extraordinary items not affecting working capital:					
Net book value of facilities sold	—	—	—	23,301	9,192
Deferred income taxes (non-current portion)	—	—	—	(3,313)	(796)
Unamortized deferred investment tax credit	—	—	—	(804)	(66)
Funds provided from extraordinary items	—	—	—	10,751	14,630
Funds provided from operations	54,483	54,066	55,571	59,608	48,957
Issuance of long-term debt	70,235	57,530	—	15,000	1,750
Increase (decrease) in net deferred foreign currency translation gains (Note I) ..	(1,998)	2,166	—	—	—
Book value of property, plant and equipment dispositions	4,643	2,395	2,321	1,100	1,065
Proceeds from exercise of stock options and sale of restricted stock to key employees	27	672	1,039	641	21
Other	560	210	(824)	(2,557)	(1,310)
Total	127,950	117,039	58,107	73,792	50,483

(Consolidated Statement of Changes in Financial Position is continued on the following page)

CAF CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION—(Continued)

	Year Ended December 31:				
	1974	1973	1972	1971	1970
	Dollars in Thousands				
Funds Applied					
Additions to property, plant and equipment	\$ 39,288	\$ 25,933	\$ 29,022	\$ 29,939	\$ 25,186
Reacquisition of \$18,500,000 and \$23,200,000 principal amount of 5% convertible notes less related gains of \$5,523,000 and \$6,359,000 in 1974 and 1973, respectively	12,977	16,841	—	—	—
Other reductions in long-term debt	6,278	19,930	16,161	18,121	9,869
Cash dividends	9,923	9,452	9,231	9,246	9,228
Acquisitions of common stock for treasury	3,718	2,434	668	54	59
Acquisitions of preferred stock for treasury	932	—	—	—	—
Net assets, excluding working capital of businesses purchased	—	—	—	16,513	622
Acquisition cost carried as investment at December 31, 1969	—	—	—	—	(1,845)
Total	73,116	74,590	55,082	73,873	43,119
Increase (Decrease) in Working Capital (including \$545,000 in 1971 and \$1,395,000 in 1970 arising from purchases of businesses)	54,834	42,449	3,025	(81)	7,364
Working Capital, January 1	250,708	208,259	205,234	205,315	197,951
Working Capital, December 31	<u>\$305,542</u>	<u>\$250,708</u>	<u>\$208,259</u>	<u>\$205,234</u>	<u>\$205,315</u>

(Consolidated Statement of Changes in Financial Position is continued on the following page)

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION—(Continued)

ANALYSIS OF CHANGES IN WORKING CAPITAL

	Year Ended December 31,				
	1974	1973	1972	1971	1970
	Dollars in Thousands				
Increase (decrease) in current assets:					
Cash and marketable securities	\$ 1,185	\$(5,769)	\$ 2,691	\$ 3,131	\$(5,687)
Accounts receivable—trade	3,202	14,034	11,919	12,775	1,392
Accounts receivable—other	1,074	1,658	(5,708)	1,784	2,945
Inventories	68,968	9,977	15,106	9,498	(5,321)
Prepaid expenses	(804)	2,353	(2,695)	2,028	(1,311)
	<u>73,625</u>	<u>22,253</u>	<u>21,313</u>	<u>29,216</u>	<u>(7,962)</u>
Increase (decrease) in current liabilities:					
Notes payable	4,997	(13,808)	20,469	6,105	(15,802)
Current portion of long-term debt	4,350	(14,495)	(2,819)	5,790	3,817
Accounts payable	(1,533)	4,844	5,167	2,195	(4,330)
Accrued liabilities	7,834	4,326	1,183	7,741	(3,505)
United States and foreign income taxes	3,143	(1,063)	(5,712)	7,466	4,474
	<u>18,791</u>	<u>(20,196)</u>	<u>18,288</u>	<u>29,297</u>	<u>(15,346)</u>
Increase (decrease) in working capital	<u>\$54,834</u>	<u>\$12,449</u>	<u>\$ 3,025</u>	<u>\$ (81)</u>	<u>\$ 7,364</u>

See Notes to Consolidated Financial Statements.

Alphabetic note references are to the Notes to Consolidated Statement of Income included elsewhere in this Prospectus.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Five Years Ended December 31, 1974

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		
	Number of Shares Issued	Assigned Value	\$1 Par Value Number of Shares Issued				Number of Shares		Cost
Balance, January 1, 1970	3,161,714	\$3,952,000	13,586,628		\$49,640,000	\$222,975,000	—	—	\$ —
Net income						14,693,000			
Cash dividends:						(3,795,000)			
Preferred stock—\$1.20 per share						(5,433,000)			
Common stock—\$.40 per share									
Stock options exercised	1,150	1,000			20,000				
Issuance of shares under incentive compensation plan	207	1,000	12,200		161,000		11,300		59,000
Purchase of treasury shares							(6,000)		(32,000)
Sale of treasury shares									
Amortization of excess of quoted market value over aggregate sales price for shares of restricted common stock sold to key employees (Note 8)					237,000				
Balance, December 31, 1970 as originally reported	3,163,071	3,954,000	13,598,828		50,058,000	228,440,000	—	5,000	27,000
Adjustment to change to equity method of accounting for investment in a 49% owned company (Note 3)					50,058,000	1,004,000		5,000	27,000
Balance, December 31, 1970 as restated	3,163,071	3,954,000	13,598,828		50,058,000	229,444,000	—	5,000	27,000
Net income (Note H)						13,474,000			
Cash dividends:						(3,802,000)			
Preferred stock—\$1.20 per share						(5,444,000)			
Common stock—\$.40 per share									
Stock options exercised	7,340	9,000	3,700		172,000				
Issuance of shares under incentive compensation plan	243				5,000				
Issuance of restricted shares of common stock under Stock Purchase Plan (Note 8)			14,000		61,000				
Conversion of preferred stock	(1,050)	(1,000)	1,312				10,000		54,000
Purchase of treasury shares							(5,000)		(27,000)
Sale of treasury shares									
Amortization of excess of quoted market value over aggregate sales price for shares of restricted common stock sold to key employees (Note 8)					254,000				
Balance, December 31, 1971	3,170,104	\$3,962,000	13,617,840		\$50,550,000	\$233,672,000	—	10,000	\$ 54,000
Net income						27,706,000			
Cash dividends:						(3,759,000)			
Preferred stock—\$1.20 per share						(5,472,000)			
Common stock—\$.40 per share									
Stock options exercised	7,815	4,000	37,750		977,000				
Issuance of shares under incentive compensation plan	582	1,000			13,000				
Conversion of preferred stock	(69,393)	(87,000)	86,738				43,500		668,000
Purchase of treasury shares							(17,291)		(427,000)
Issuance of treasury shares in connection with an acquisition									
Amortization of excess of quoted market value over aggregate sales price for shares of restricted common stock sold to key employees (Note 8)					180,000				
Other					49,000				
Balance, December 31, 1972	3,104,118	\$3,880,000	13,762,328		\$51,769,000	\$252,147,000	—	56,209	\$ 295,000

(Consolidated Statement of Shareholders' Equity is continued on the following page)

DISCLOSURE ^(R)

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY—(Continued)
For the Five Years Ended December 31, 1974

	Preferred Stock		Common Stock \$1 Par Value Number of Shares Issued	Additional Paid-in Capital	Retained Earnings	Treasury Stock		
	Number of Shares Issued	Assigned Value				Number of Shares	Preferred	Common
Balance, December 31, 1972	3,104,108	\$3,880,000	13,762,328	\$51,769,000	\$252,147,000	—	36,209	\$ 295,000
Net income					28,924,000			
Cash dividends:					(3,726,000)			
Preferred stock—\$1.20 per share					(5,726,000)			
Common stock—\$.42 per share			1,000	9,000				
Stock options exercised								
Issuance of shares under incentive compensation plan	991	1,000		21,000				
Conversion of preferred stock	(80)		100					
Purchase of treasury shares						173,000		2,434,000
Issuance of treasury shares in connection with sales under the Stock Purchase Plan				(732,000)		(119,000)		(1,394,000)
Issuance of treasury shares in connection with a prior acquisition				1,000		(60)		(1,000)
Amortization of excess of quoted market value over aggregate sales price for shares of restricted common stock sold to key employees (Note 8)				985,000				
Balance, December 31, 1973	3,105,009	\$3,881,000	13,763,428	\$52,053,000	\$271,619,000	—	90,149	\$1,334,000
Net income					32,493,000			
Cash dividends:					(3,705,000)			
Preferred stock—\$1.20 per share					(6,216,000)			
Common stock—\$.46 per share								
Issuance of shares under incentive compensation plan	632	1,000		14,000				
Conversion of preferred stock	(230)		287					
Purchase of treasury shares:						76,400		932,000
Preferred stock							535,800	3,718,000
Common stock								
Issuance of treasury shares in connection with sales under the Stock Purchase Plan				(1,000)		(5,000)		(27,000)
Amortization of excess of quoted market value over aggregate sales price for shares of restricted common stock sold to key employees (Note 8)				725,000				
Balance, December 31, 1974	3,105,411	\$3,882,000	13,763,715	\$52,791,000	\$294,189,000	76,400	620,949	\$5,957,000

See Notes to Consolidated Financial Statements.

Alphabetic note references are to the Notes to Consolidated Statement of Income included elsewhere in this Prospectus.

**GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Alphabetic note references are to Notes to the Consolidated Statement of Income
included elsewhere in this Prospectus)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounts of all significant subsidiaries of the Company are included in the consolidated financial statements. Certain 1973 amounts have been reclassified to conform with the classifications followed in 1974.

Translation of Foreign Currencies—Current assets and current liabilities of foreign subsidiaries and long-term foreign obligations are translated into U.S. dollars at year-end exchange rates, other assets and liabilities and depreciation at historical exchange rates and other operating accounts generally at average exchange rates for the year.

Prior to 1973, foreign exchange gains and losses were included in income. In 1973, however, the Company modified this policy in response to major and unprecedented changes in the international monetary markets (including, among other conditions, the floating, without limitation, of major international currencies). Under the modified policy, cumulative foreign translation gains are deferred to the extent they exceed translation losses previously charged to income. Foreign translation losses will be charged to income currently to the extent they exceed net translation gains previously deferred.

Inventories—Inventories, other than dyestuffs and pigments, are valued at the lower of cost (principally average) or market. Effective with the year ended December 31, 1974, dyestuffs and pigments inventories are valued at cost, determined by the last-in, first-out (LIFO) method.

Property, Plant and Equipment, and Related Depreciation—Expenditures for maintenance and repairs are charged directly to expense; major replacements and betterments are capitalized and depreciated over the remaining estimated economic lives of the related assets. The cost and related accumulated depreciation of property sold, retired or fully depreciated are removed from the accounts and any resultant gain or loss is included in current income.

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. These lives are subject to annual review and revision to assure that the cost of the related assets is written off over their economic lives.

Cost in Excess of Net Assets Acquired—Cost in excess of net assets acquired in connection with acquisitions prior to November 1, 1970, is not being amortized because there has been no diminution in value; such cost relating to acquisitions made subsequent to October 31, 1970, all of which has continuing value, is being amortized on the straight-line method over a period of forty years.

Deferred Income Taxes—Deferred income taxes arise from reporting certain income and expense items (principally depreciation, gain on the reacquisition of debt and the gain or loss on disposition of plant facilities) in the financial statements in periods different from those in which such amounts are reported for United States income tax purposes.

Investment Tax Credit—The Company accounts for investment tax credits arising since January 1, 1971, as a reduction of the provision for United States income tax (the flow-through method). Investment tax credits which arose prior to that date have been deferred and are being amortized over the estimated service lives of the related assets.

DISCLOSURE



IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

**GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Research and Development Costs—Expenditures for research and development are charged to income as incurred.

Retirement Plans—The Company and its subsidiaries have several retirement plans covering substantially all employees. The Company's policy is to fund amounts equal to pension costs accrued and, for plans with prior service costs, to amortize such costs over periods not to exceed forty years.

Earnings Per Share—Primary earnings per common share are computed by dividing net income, less preferred stock dividend requirements, by the weighted average number of shares of common stock outstanding during the year. The computation assumes the exercise of outstanding stock options to the extent they are dilutive.

Fully diluted earnings per common share are computed on the assumption (where the effect thereof would be dilutive) that convertible securities outstanding had been converted into shares of common stock. Appropriate adjustments for dividends on preferred stock and interest on convertible notes (net of income tax effect) are made to earnings applicable to common stock for assumed conversions. The computation also assumes the exercise of all dilutive stock options.

NOTE 2. FOREIGN OPERATIONS

The consolidated balance sheet includes the following amounts with respect to foreign subsidiaries (all of which are wholly-owned):

	December 31	
	1974	1973
	Dollars in Thousands	
Current assets	\$75,738	\$53,976
Other assets	10,889	9,993
Total assets	<u>86,627</u>	<u>63,969</u>
Current liabilities	35,498	21,321
Other liabilities	7,514	5,863
Total liabilities	<u>43,012</u>	<u>27,184</u>
Net assets	<u>\$43,615</u>	<u>\$36,785</u>

The consolidated statement of income includes the following amounts with respect to foreign subsidiaries:

	Year Ended December 31,				
	1974	1973	1972	1971	1970
	Dollars in Thousands				
Net sales	\$129,172	\$106,414	\$78,849	\$64,364	\$61,239
Income before extraordinary items	6,940	5,882	2,576	3,126	2,051
Extraordinary credits	—	—	—	1,153	3,923
Net income	<u>\$ 6,940</u>	<u>\$ 5,882</u>	<u>\$ 2,576</u>	<u>\$ 4,279</u>	<u>\$ 5,974</u>

**GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company had net deferred foreign currency translation gains of \$168,000 and \$2,166,000 at December 31, 1974, and 1973, respectively. The gain at December 31, 1973 arose during that year. The reduction in 1974 of the deferred credit represents the effect of the unfavorable movement of foreign currencies in relation to the United States dollar. Unrealized foreign currency exchange losses for 1972, amounting to \$447,000, were charged to income in 1972 and the net gain for 1971, amounting to \$992,000, was treated as an extraordinary credit.

NOTE 3. ACQUISITIONS

In March 1971, the Company acquired certain photofinishing plants and the business and assets relating thereto for a net cash purchase price of approximately \$15,200,000. The results of operations of the acquired business, which did not significantly affect consolidated revenues or net income for 1971, have been included in the consolidated financial statements from the date of acquisition.

In 1972, the Company completed studies (including independent appraisals) to determine the fair value of certain assets included in 1971 acquisitions and recorded at that time at tentative values. As a result of these studies certain reallocations, which did not have a significant effect on the consolidated financial statements, of these tentative values were made.

The Company's ownership of an Australian subsidiary, GAF (Australasia) Pty. Limited (formerly Consolidated Reprographics, Ltd.), was increased to 100% at December 31, 1972 through cash purchases of this subsidiary's shares of capital stock from minority shareholders amounting to approximately \$156,000 in 1972 and \$1,479,000 in 1971.

The Company has a 49% interest in Chemical Developments of Canada, Limited (CDCL) which was acquired when that company was formed in 1949. Prior to 1971 this investment was included in other investments and advances at a nominal value, and dividends paid by CDCL were included in other income as received. During 1971 the Company adopted the equity method of accounting for the investment in CDCL. The resulting adjustment, consisting of \$466,000 representing the excess of cost over carrying value of the investment and \$538,000 representing the Company's equity in undistributed earnings for the period from 1949 to December 31, 1970, has been included in other investments and advances with an offsetting credit to retained earnings as of December 31, 1970. The Consolidated Statement of Income for years prior to 1971 was not restated to include therein the portion of the adjustment applicable to those years since the amount thereof was not material (Note G).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

The ranges of annual depreciation rates generally were as follows:

Land improvements	2% -10%
Building and building equipment	1½%-10%
Machinery and equipment	3% -40%

**GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 5. INCOME TAXES

Provision has not been made for income taxes on unremitted earnings of foreign subsidiaries, since any withholding taxes and United States income taxes payable on dividends based on undistributed earnings would be substantially offset by foreign tax credits. United States income taxes have not been provided on the unremitted earnings of the Domestic International Sales Corporation subsidiary, aggregating \$4,922,000 through December 31, 1974, because the Company intends to postpone indefinitely the remittance of such earnings.

The principal sources of United States deferred taxes are:

	<u>1974</u>	<u>1973</u>
	<u>Dollars in Thousands</u>	
Excess of tax over book depreciation	\$2,297	\$2,451
Gain on reacquisition of 5% convertible notes	2,714	2,958
Depreciation adjustment related to deferral of gain on debentures	(375)	(203)
Excess of book over tax basis of assets written off in connection with phase out of Linden dyestuff and pigment operations and book reserves established in connection therewith	(144)	(1,284)
Office relocation expenses	(1,352)	—
Amortization of excess of market value over sales price of stock issued under the Company's Stock Purchase Plan	(348)	(473)
Excess of book over tax provision for bad debts	(506)	(120)
Executive Incentive Compensation bonus payments accrued in excess of payments made during prior years	(278)	(93)
Provision for estimated expenses in connection with sale of certain property	(312)	—
Other, net	46	550
	<u>\$1,742</u>	<u>\$3,786</u>

The effective tax rates were 42.0% and 44.4% in 1974 and 1973, respectively. The reasons for the differences from the statutory rate of 48.0% are as follows:

	<u>% of Pretax Income</u>	
	<u>1974</u>	<u>1973</u>
Statutory rate	48.0%	48.0%
Increases (decreases) in taxes resulting from:		
United States investment tax credit	(3.6)	(3.8)
State and local income taxes, net of United States income tax benefit	2.0	2.5
Other—net	(4.4)	(2.3)
Effective tax rate	<u>42.0%</u>	<u>44.4%</u>

**GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 6. LONG-TERM DEBT AND DIVIDEND RESTRICTIONS

Long-term debt at December 31, 1974, and 1973 was as follows:

	<u>1974</u>	<u>1973</u>
	Dollars in Thousands	
6½% Swiss Franc Note due October 1, 1976 translated at year-end exchange rate	\$ 19,650	\$ 15,395
Promissory Notes, payable to banks, due May 15, 1980	24,000	24,000
Promissory Notes, payable to banks, due December 31, 1981	60,000	—
5½% Convertible Subordinated Notes due April 1, 1983 with annual repayments of \$200,000 on each April 1 through 1982 and balance of \$1,800,000 payable April 1, 1983	3,400	3,500
5% Convertible Subordinated Notes due April 1, 1994 with annual repayments beginning April 1, 1990	8,200	26,700
5¾% Sinking Fund Debentures due December 1, 1991 with annual sinking fund payments of \$2,500,000 on each December 1, less \$1,653,000 and \$3,153,000 in treasury in 1974 and 1973, respectively	40,847	41,847
Other notes, which bear interest at 3½% to 9% and mature at various dates to 1986	30,319	25,067
Total	186,416	136,609
Less portion due within one year	5,243	893
Long-term debt, less current portion	\$181,173	\$135,716

The promissory notes due in 1980 bear interest at 118% of the prime commercial lending rate through May 15, 1975; 122% of such rate through May 15, 1978; and 128% of such rate thereafter. Outstanding borrowings at December 31, 1975, are repayable in quarterly installments commencing in 1976.

The promissory notes due in 1981 bear interest at 115% of the prime commercial lending rate. Outstanding borrowings at December 31, 1976 are repayable in quarterly installments commencing in 1977. Pursuant to arrangements in connection with these notes, a compensating balance of 10% (\$6,000,000 at December 31, 1974) of the outstanding debt is to be maintained.

The 5½% convertible subordinated notes are convertible into shares of common stock at any time prior to April 2, 1976, at a conversion price of \$28.72 per share (subject to anti-dilution adjustments in specified circumstances).

**GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The 5% convertible subordinated notes are convertible into shares of common stock, at any time, at a conversion price of \$27.50 per share (subject to anti-dilution adjustments in specified circumstances).

The total amount of long-term debt maturing in 1976 is \$31,035,000, in 1977, \$22,507,000, in 1978, \$23,717,000, and in 1979, \$23,723,000. The 5 $\frac{7}{8}$ % Sinking Fund Debentures held in treasury may be used to reduce the amount of the annual sinking fund payments. None of the long-term debt is pledged, held by or for the account of the Company, or held in sinking or other special funds, except for \$1,653,000 and \$3,152,000 of the 5 $\frac{7}{8}$ % Sinking Fund Debentures held in treasury at December 31, 1974 and December 31, 1973, respectively.

At December 31, 1974, the Company had domestic lines of credit, aggregating \$65,500,000, with interest generally at the prime commercial lending rate. Pursuant to certain of the domestic arrangements under which lines of credit were established, compensating balances are generally required to equal 20% of the outstanding borrowings and 10% of the unused portion of the lines of credit. At December 31, 1974, borrowings in connection with the lines of credit were \$5,000,000 and compensating balances amounted to approximately \$4,375,000.

Dividends are restricted under provisions of certain loan agreements. Under the most restrictive of these provisions, shareholders' equity cannot be reduced below \$348,214,000. Shareholders' equity at December 31, 1974, was \$358,669,000.

The promissory notes due in 1981, referred to above, were issued in December 1974 and the proceeds were used to refinance certain short-term debt. As a result of this refinancing, short-term debt at December 31, 1974, was \$32,431,000 as compared to an average of \$69,000,000 for the year 1974; the maximum amount of such borrowings which were outstanding at any month end during 1974 was \$91,000,000. The average interest rate on the year-end balance was 11.5% as compared with an average of 11.0% for the full year.

NOTE 7. CAPITAL STOCK

The \$1.20 convertible preferred stock, dividends on which are cumulative, is convertible, at any time, into common stock at the rate of $\frac{1}{4}$ shares of common stock for each share of preferred. The Company may redeem the preferred stock at specified prices ranging from \$29.00 per share through May 31, 1975, to \$27.50 per share after May 31, 1977.

The voluntary or involuntary liquidation value of the 3,029,011 outstanding shares (3,105,411 shares issued less 76,400 shares held in treasury) of \$1.20 Convertible Preferred Stock at December 31, 1974, aggregating \$83,298,000, exceeds the assigned value by \$26.25 per share, or a total of \$79,512,000. In the opinion of counsel for the Company, retained earnings are not restricted as to payment of dividends on Common Stock by reason of the liquidation preferences of the \$1.20 Convertible Preferred Stock.

**GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The number of shares of the Company's capital stock reserved for issuance at December 31, 1974 and 1973 were as follows:

	1974	1973
\$1.20 Convertible Preferred Stock:		
Reserved for payment of deferred stock awards under incentive compensation plan	1,516	2,148
Common Stock:		
Reserved for conversion of \$1.20 Convertible Preferred Stock, including 1,895 and 2,685 shares, respectively, for deferred stock awards	3,788,159	3,883,946
Reserved for exercise of stock options	509,750	509,750
Reserved for conversion of 5½% Convertible Subordinated Notes	118,384	125,348
Reserved for conversion of 5% Convertible Subordinated Notes ..	298,182	970,909
Reserved for sale under the Stock Purchase Plan	397,200	362,000
Total	5,111,675	5,851,953

None of the shares outstanding is held by or for the account of the issuer thereof and no shares, other than stated above, are reserved for officers and employees or for options, warrants, conversions, or other rights.

NOTE 8. STOCK OPTION AND STOCK PURCHASE PLANS

Under the provisions of the Company's 1965 qualified stock option plan, options to purchase shares of Common Stock may be granted to key employees during a ten-year period ending March 31, 1975. The prices at which options may be granted may not be less than 100% of the fair market value of the shares on the dates the options are granted. The options are exercisable after a one-year waiting period and terminate five years from date of grant.

Options outstanding by year of grant at December 31, 1974 and 1973 were as follows:

Year of Grant	Option Price Per Share	1974		1973	
		Number of Shares	Total Option Price	Number of Shares	Total Option Price
1969	\$17.313	—	\$ —	19,350	\$ 335,000
1970	10.1875 — 11.000	8,300	86,000	9,800	101,000
1972	20.875 — 23.375	41,500	866,000	68,000	1,445,000
1973	12.687	74,250	942,000	78,250	993,000
1974	9.500	54,000	513,000	—	—
		<u>178,050</u>	<u>\$2,407,000</u>	<u>175,400</u>	<u>\$2,874,000</u>

DISCLOSURE[®]

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

**GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At December 31, 1974 and 1973 there were 331,700 and 334,350 shares, respectively, reserved for the granting of additional options.

Options became exercisable as follows:

Year Exercisable	Number of Shares	Option Price		Market Price on Date First Exercisable	
		Per Share	Total	Per Share	Total
1970	50,500	\$17.313	\$ 874,000	\$10.062	\$ 508,000
1971	31,000	10.1875 - 11.000	319,000	19.687 - 19.937	611,000
1972	—	—	—	—	—
1973	68,000	20.875 - 23.375	1,445,000	10.937 - 11.562	750,000
1974	74,250	12.687	942,000	8.687	645,000

Common Stock options exercised were as follows:

Year Ended December 31,	Number of Shares	Option Price		Market Price on Date Exercised	
		Per Share	Total	Per Share	Total
1970	—	\$ —	\$ —	\$ —	\$ —
1971	3,700	10.1875 - 17.313	45,000	19.75 - 24.625	80,000
1972	57,750	10.1875 - 25.375	997,000	21.125 - 27.00	1,434,000
1973	1,000	10.1875	10,000	14.812 - 21.1875	18,000
1974	—	—	—	—	—

Options for 124,050 and 97,150 shares, having an aggregate option price of \$1,894,000 and \$1,881,000 respectively, were exercisable at December 31, 1974, and 1973, respectively.

\$1.20 Convertible Preferred Stock options exercised were as follows:

Year Ended December 31,	Number of Shares	Option Price		Market Price on Date Exercised	
		Per Share	Total	Per Share	Total
1970	1,150	\$13.500 - 19.375	\$ 21,000	\$20.125 - 24.000	\$ 27,000
1971	7,840	13.500 - 18.375	140,000	21.000 - 30.750	176,000
1972	2,815	13.500 - 17.750	42,000	28.125 - 32.000	86,000
1973	—	—	—	—	—
1974	—	—	—	—	—

The proceeds from stock options exercised were credited to the Preferred and Common Stock accounts in the amount of the assigned or par values of the respective shares issued, and the excess was credited to additional paid-in capital.

Under the provisions of the Company's 1969 Restricted and Unrestricted Stock Purchase Plan, 650,000 shares of Common Stock may be sold to key employees. The Stock Purchase Plan as originally

**GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

adopted provided that restricted and unrestricted shares may be sold at prices which are not less than 20% and 80%, respectively, of the closing market price preceding the date on which an employee is designated as one to whom shares may be offered for sale. The minimum purchase price of restricted shares under the Stock Purchase Plan was raised from 20% to 50% of such market price in accordance with a court-approved settlement terminating certain shareholders' derivative litigation. The excess of quoted market value over the aggregate sales price for restricted shares sold is being amortized by charges to income over the restriction period. The unamortized balance to be amortized through the period ending October 12, 1983 amounted to \$1,316,000 and \$2,302,000 at December 31, 1974 and 1973, respectively. Under certain conditions, the Company has the right to repurchase restricted shares of Common Stock at the original selling price. These repurchased shares are held in treasury.

NOTE 9. RETIREMENT PLANS

The following is a summary of pension costs:

<u>Year</u>	<u>Amount</u>
1974.....	\$9,282,000
1973.....	6,777,000
1972.....	5,961,000
1971.....	5,539,000
1970.....	3,667,000

The actuarially computed value of vested benefits exceeded the total of pension funds and accrued liabilities for pension costs by \$40,300,000 and \$22,566,000 at December 31, 1974 and 1973 respectively. The estimated unfunded prior service cost at December 31, 1974 was \$46,000,000. The Company does not anticipate any significant increase in the required contributions to the pension funds as a result of the 1974 pension reform act. However, under the act, the Company is liable in the event of termination of plans for any guaranteed benefits (as defined by the act) in excess of the plans' net assets, limited to 30% of the Company's net worth at the time of termination. Such liability for guaranteed benefits at December 31, 1974, is not readily determinable, but would be less than the unfunded vested benefits at that date. Following the general decline in security prices during 1974, the market value of the funds decreased by approximately \$18,000,000.

NOTE 10. EXECUTIVE INCENTIVE COMPENSATION

The Company has an Executive Incentive Compensation Plan that provides for bonuses to key executives of the Company based on consolidated net income (as defined). The provision for such bonuses was as follows:

<u>Year</u>	<u>Amount</u>
1974.....	\$2,273,000
1973.....	1,754,000
1972.....	1,524,000
1971.....	1,265,000
1970.....	—

**GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 11. SUPPLEMENTARY INCOME STATEMENT INFORMATION

The following table summarizes supplementary income statement information for the five years ended December 31, 1974.

	Charged to Costs and Expenses For the Year Ended December 31,				
	1974	1973	1972	1971	1970
	Dollars in Thousands				
Maintenance and repairs	\$41,344	\$36,079	\$34,059	\$33,823	\$30,889
Depreciation of property, plant and equipment	24,212	23,200	25,400	24,550	22,023
Taxes, other than taxes on income:					
Social Security and unemployment	15,388	14,521	12,475	9,385	7,675
Other	7,738	7,430	7,173	6,650	6,539
Rents	14,532	14,092	13,283	12,022	11,296

NOTE 12. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is obligated under various long-term, noncancelable leases at December 31, 1974, as follows:

	Land and Land Improvements	Aggregate Rental By Period		Total
		Buildings and Building Equipment	Machinery and Equipment	
		Dollars in Thousands		
1975	\$ 68	\$ 4,892	\$2,119	\$ 7,079
1976	36	4,709	1,594	6,339
1977	32	4,630	907	5,569
1978	32	4,550	504	5,086
1979	32	4,240	147	4,419
1980-1984	183	18,876	445	19,504
1985-1989	190	11,401	—	11,591
1990-1994	6	9,029	—	9,035
Beyond 1994	9	4,308	—	4,317

The above amounts are for existing leases and do not represent a forecast of future expenses.

The Company has financing leases as defined by the Securities and Exchange Commission. The present value of commitments applicable to these leases is less than five percent of the sum of long-term debt, shareholders' equity and the present value of such leases. The impact on 1974 net income which would have resulted if these leases were capitalized is less than three percent of average net income for the years 1972 to 1974.

The Company had commitments of approximately \$9,900,000 at December 31, 1974, for the acquisition of property, plant and equipment.

At December 31, 1974, there were certain lawsuits and claims pending against the Company. In the opinion of management, the ultimate disposition of these matters will not materially affect the Company's consolidated financial position.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 10. *Other Financial Statements and Schedules.*

Unconsolidated subsidiaries, when considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary, and consequently their separate balance sheets are omitted from the Prospectus.

Separate financial statements of the Registrant are omitted because its total assets, exclusive of investments in and advances to consolidated subsidiaries, constitute 75 per cent or more of the total assets shown by the latest consolidated balance sheet filed and total gross revenues for the latest period for which profit and loss statements are filed, exclusive of interest and dividends received, or equity in income, from the consolidated subsidiaries, constitute 75 per cent or more of the total gross revenues shown by the consolidated profit and loss statements filed.

The following financial statements are included in the Prospectus:

Consolidated Statement of Income for the five years ended December 31, 1974

Consolidated Balance Sheet as of December 31, 1974 and 1973

Consolidated Statement of Changes in Financial Position for the five years ended December 31, 1974

Consolidated Statement of Shareholders' Equity for the five years ended December 31, 1974

Notes to Consolidated Financial Statements

Schedules and historic financial information are omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto.

Item 12. *Other Expenses of Issuance and Distribution.*

The estimated expenses, all of which are to be paid by the Registrant, incurred in connection with this amendment to the registration statement are:

Printing costs	\$17,000
Legal fees	4,000
Accounting fees	15,000
	<hr/>
	\$36,000

Item 13. *Relationship with Registrant of Experts Named in Registration Statement.*

None.

Item 16. *Other Documents Filed as a Part of the Registration Statement.*

(a.) None

(b.) Exhibits:

4(b)8 —Term Loan Agreement dated as of December 26, 1974 between GAF Corporation, Morgan Guaranty Trust Company of New York, Credit Suisse, Manufacturers Hanover Trust Company, Chemical Bank, First National City Bank, Irving Trust Company, Bank of America National Trust and Savings Association and Mellon Bank, N.A. (Incorporated by reference to Registrant's Form 8-K for December 1974 (Commission File No. 1-5026) Exhibit (h).)

DISCLOSURE®

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

4(b)9(i) —Form of Rensselaer County Industrial Development Agency—1974 Series A Pollution Control Revenue Bond (GAF Corporation—Sterling Drug, Inc. Facility) dated July 1, 1974.

Guaranty by the Registrant to Morgan Guaranty Trust Company of New York of 61.7% of the principal and interest on Rensselaer County Industrial Development Agency 1974 Series A Pollution Control Revenue Bond (GAF Corporation—Sterling Drug, Inc. Facility).

Lease Agreement dated as of July 1, 1974 among the Registrant, Sterling Drug, Inc. and Rensselaer County Industrial Development Agency.

Assignment of Lease dated as of July 1, 1974 between Rensselaer County Industrial Development Agency and Morgan Guaranty Trust Company of New York.

Bond Purchase Agreement dated as of July 1, 1974 between Rensselaer County Industrial Development Agency and Morgan Guaranty Trust Company of New York.

Resolution adopted May 1, 1974 authorizing issuance of a pollution control revenue bond by the Rensselaer County Development Agency.

Resolution adopted August 5, 1974 of the Rensselaer County Legislature pledging protection to bondholders.

The Registrant agrees to furnish a copy of the above instruments to the Commission upon request. The above instruments are omitted because the total amount of the securities guaranteed does not exceed 5% of the total assets of the Registrant and its subsidiaries on a consolidated basis.

4(b)9(ii) —Form of Broome County Industrial Development Agency—1974 Series A Pollution Control Revenue Bond (GAF Corporation Facility) dated May 1, 1974.

Guaranty by the Registrant to Morgan Guaranty Trust Company of New York of the principal and interest on Broome County Industrial Development Agency 1974 Series A Pollution Control Revenue Bond (GAF Corporation Facility).

Lease Agreement dated as of May 1, 1974 between the Registrant and Broome County Industrial Development Agency.

Assignment of Lease dated as of May 1, 1974 between Broome County Industrial Development Agency and Morgan Guaranty Trust Company of New York.

Bond Purchase Agreement dated as of May 1, 1974 between Broome County Industrial Development Agency and Morgan Guaranty Trust Company of New York.

Resolution adopted February 7, 1974 authorizing issuance of a pollution control revenue bond by the Broome County Development Agency.

Resolution of the Broome County Legislature pledging protection to bondholders.

The Registrant agrees to furnish a copy of the above instruments to the Commission upon request. The above instruments are omitted because the total amount of the securities guaranteed does not exceed 5% of the total assets of the Registrant and its subsidiaries on an consolidated basis.

14

—Computation of Earnings Per Common Share for the Five Years Ended December 31, 1974.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 the Registrant has duly caused this Post-effective Amendment No. 3 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City and State of New York on the 26th day of March, 1975.

GAF CORPORATION

By **JESSE WERNER**
(JESSE WERNER, Chairman and President)

Pursuant to the requirements of the Securities Act of 1933, this Post-effective Amendment No. 3 to the Registration Statement has been signed below by the following persons in the capacities and on the date indicated.

Signature	Title	Date
JESSE WERNER (JESSE WERNER)	Chairman and President, Director (Principal Executive Officer)	March 26, 1975
JAMES T. SHERWIN (JAMES T. SHERWIN)	Executive Vice President, Director (Principal Financial Officer)	March 26, 1975
EDWARD J. DEVLIN (EDWARD J. DEVLIN)	Vice President and Con- troller (Principal Ac- counting Officer)	March 26, 1975
T. ROLAND BERNER (T. ROLAND BERNER)	Director	March 26, 1975
PHILIP B. DALTON (PHILIP B. DALTON)	Executive Vice President, Director	March 26, 1975
KENNETH C. FOSTER (KENNETH C. FOSTER)	Director	March 26, 1975
RAINER E. GUT (RAINER E. GUT)	Director	March 26, 1975
WM. PEYTON MARIN (WM. PEYTON MARIN)	Director	March 26, 1975
JULIETTE M. MORAN (JULIETTE M. MORAN)	Executive Vice President, Director	March 26, 1975
..... (JAMES J. O'LEARY)	Director	March 26, 1975
VICTOR E. ROCKHILL (VICTOR E. ROCKHILL)	Director	March 26, 1975
HOWARD S. TURNER (HOWARD S. TURNER)	Director	March 26, 1975

POWER OF ATTORNEY

We, the undersigned officers and directors of GAF Corporation, hereby severally constitute Jesse Werner, James T. Sherwin and Frederick W. McNabb, Jr., and each of them singly, our true and lawful attorneys, with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to the amended registration statement dated March 31, 1975 filed with the Securities and Exchange Commission for the purpose of registering the Common Stock of GAF Corporation, hereby ratifying and confirming our signatures as they may be signed by our said attorneys to any and all amendments to said registration statement.

Witness our hands and common seal on the date set forth below.

[SEAL]

Signature	Title	Date
JESSE WERNER (JESSE WERNER)	Chairman and President, Director (Principal Executive Officer)	March 26, 1975
JAMES T. SHERWIN (JAMES T. SHERWIN)	Executive Vice President, Director (Principal Financial Officer)	March 26, 1975
EDWARD J. DEVLIN (EDWARD J. DEVLIN)	Vice President and Con- troller (Principal Ac- counting Officer)	March 26, 1975
T. ROLAND BERNER (T. ROLAND BERNER)	Director	March 26, 1975
PHILIP B. DALTON (PHILIP B. DALTON)	Executive Vice President, Director	March 26, 1975
KENNETH C. FOSTER (KENNETH C. FOSTER)	Director	March 26, 1975
RAINER E. GUT (RAINER E. GUT)	Director	March 26, 1975
WM. PEYTON MARIN (WM. PEYTON MARIN)	Director	March 26, 1975
JULIETTE M. MORAN (JULIETTE M. MORAN)	Executive Vice President, Director	March 26, 1975
..... (JAMES J. O'LEARY)	Director	March 26, 1975
VICTOR E. ROCKHILL (VICTOR E. ROCKHILL)	Director	March 26, 1975
HOWARD S. TURNER (HOWARD S. TURNER)	Director	March 26, 1975

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GAF CORPORATION:

We hereby consent to the use in this Post-Effective Amendment No. 3 to Registration Statement No. 2-41036 of our opinion dated February 7, 1975 appearing in the Prospectus which is a part of such Registration Statement, and to the references to us under the headings "Financial Statements—Experts" and "Consolidated Statement of Income" in such Prospectus.

HASKINS & SELLS

New York, New York
March 28, 1975

II-5

DISCLOSURE [®]

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES
COMPUTATION OF EARNINGS PER COMMON SHARE
FOR THE FIVE YEARS ENDED DECEMBER 31, 1974

Exhibit 14

Item No.		Year Ended December 31,				
		1974	1973	1972	1971	1970
<u>Primary Earnings Per Common Share:</u>						
<u>Based on Net Income:</u>						
1	Earnings applicable to common stock (per statement of consolidated income).....	\$28,788,000	\$25,198,000	\$23,947,000	\$ 9,672,000	\$10,898,000
2	Weighted average number of shares of common stock outstanding during the year (Note 1).....	17,518,000	13,631,000	13,687,000	13,609,000	13,594,000
3	Primary net income per common share (item 1 ÷ item 2) (Note 2).....	\$ 2.13	\$ 1.85	\$ 1.75	\$.71	\$.80
<u>Based on Income before extraordinary items:</u>						
4	Item 1 above.....				\$ 9,672,000	\$10,898,000
5	Add (deduct) extraordinary charges (credits) (per statement of consolidated income).....				8,433,000	(6,300,000)
6	Total.....				\$18,105,000	\$ 4,598,000
7	Primary earnings per common share based on income before extraordinary items (item 6 ÷ item 2).....	N/A	N/A	N/A	\$ 1.33	\$.34
<u>Fully Diluted Earnings Per Common Share</u>						
<u>Based on Net Income:</u>						
<u>Items included in computation, where effect would be dilutive:</u>						
8	Item 1 above.....	\$28,788,000	\$25,198,000	\$23,947,000	N/A	\$10,898,000
9	Add preferred stock dividend requirements (per statement of consolidated income).....	3,705,000	3,726,000	3,759,000		N/A
<u>Add interest expense, less income tax effect:</u>						
10	5% convertible subordinated notes (issued in 1969).....	263,000	886,000	1,297,000		1,270,000
11	5½% convertible subordinated notes.....	95,000	104,000	109,000		N/A
12	Total.....	\$32,851,000	\$29,914,000	\$26,112,000		\$12,168,000
13	Item 2 above.....	17,518,000	13,631,000	13,687,000		13,594,000
<u>Add assumed conversion of weighted average of shares of preferred stock and convertible subordinated notes outstanding during the year to shares of common stock at the beginning of the year:</u>						
14	\$1.20 convertible preferred stock (shares X 1.25).....	3,857,000	3,881,000	3,880,000		N/A
15	5% convertible subordinated notes (\$10,725,000 in 1974, \$34,017,500 in 1973, \$49,900,000 in 1972 and \$50,000,000 in 1970 + \$27.50)....	390,000	1,237,000	1,815,000		1,818,000
16	5½% convertible subordinated notes (\$3,446,000 in 1974, \$3,650,000 in 1973 and \$3,850,000 in 1972 + \$28.72).....	120,000	127,000	134,000		N/A
<u>Add assumed exercise of stock options using the treasury stock method:</u>						
17	\$1.20 convertible preferred stock.....	-	-	-		2,000
18	Common stock.....	-	9,000	15,000		N/A
19	Total.....	17,885,000	18,885,000	19,534,000		15,414,000
20	Fully diluted earnings per common share based on net income (item 12 ÷ item 19).....	\$ 1.84	\$ 1.58	\$ 1.49		\$.79

(Continued) - 1

DISCLOSURE® IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

DISCLOSURE® IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

GAF CORPORATION
AND CONSOLIDATED SUBSIDIARIES
COMPUTATION OF EARNINGS PER COMMON SHARE
FOR THE FIVE YEARS ENDED DECEMBER 31, 1974

Exhibit 14

Item No.	Fully Diluted Earnings Per Common Share Based on Net Income (continued):	Year Ended December 31,				
		1974	1973	1972	1971	1970
	Items excluded from computation, where effect would be anti-dilutive:	N/A	N/A	N/A		
	Assuming conversion of preferred stock					
21	Item 1 above.....			\$ 9,672,000	\$10,898,000	
22	Add preferred stock dividend requirements.....			3,802,000	3,795,000	
23	Total.....			13,474,000	14,693,000	
24	Item 2 above.....			13,609,000	13,594,000	
25	Add assumed issuances of common stock (shares X 1.25).....			3,963,000	3,954,000	
26	Total.....			17,572,000	17,548,000	
27	Net income per common share (item 23 + item 26).....			\$.77	\$.84	
	Assuming conversion of 5 1/2% convertible subordinated notes					
28	Item 1 above.....			\$ 9,672,000	\$10,898,000	
29	Add interest expense, less income tax effect, for 5 1/2% notes.....			114,000	112,000	
30	Total.....			\$ 9,786,000	\$11,010,000	
31	Item 2 above.....			13,609,000	13,594,000	
32	Add assumed issuance of common stock (4,000,000 + \$28.72).....			139,000	139,000	
33	Total.....			13,748,000	13,733,000	
34	Net income per common share (item 30 + item 33).....			\$.71*	\$.80*	
	Assuming conversion of 5% convertible notes					
35	Item 1 above.....			\$ 9,672,000		
36	Add interest expense, less income tax effect, for 5% notes.....			1,297,000		
37	Total.....			\$10,969,000		
38	Item 2 above.....			13,609,000		
39	Add assumed issuance of common stock (\$49,900,000 in 1971 + \$27.50 X 58.6% representing portion of the year outstanding).....			1,815,000		
40	Total.....			15,424,000		
41	Net income per common share (item 37 + item 40).....			\$.71*		

* Anti-dilution less than \$.01.

(Continued) - 2

DISCLOSURE ^(N) IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

DISCLOSURE ^(N) IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS
DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

GAP CORPORATION
AND CONSOLIDATED SUBSIDIARIES
COMPUTATION OF EARNINGS PER COMMON SHARE
FOR THE FIVE YEARS ENDED DECEMBER 31, 1974

Exhibit 14

Item No.	Fully Diluted Earnings Per Common Share Based on Income Before Extraordinary Items	Year Ended December 31,				
		1974	1973	1972	1971	1970
	Items included in computation, where effect would be dilutive:	N/A	N/A	N/A		
42	Item 6 above.....				\$18,105,000	\$ 4,598,000
43	Add preferred stock dividend requirements (per statement of consolidated income).....				3,802,000	N/A
44	Add interest expense, less income tax effect:					
45	5% convertible subordinated notes (issued in 1969).....				1,297,000	1,270,000
46	5 1/2% convertible subordinated notes.....				114,000	N/A
47	Total.....				\$23,318,000	\$ 5,868,000
	Item 2 above.....				13,609,000	13,594,000
	Add assumed conversion of shares of preferred stock and convertible subordinated notes outstanding at the end of the year to shares of common stock at the beginning of the year:					
48	\$1.20 convertible preferred stock (shares X 1.25).....					
49	5% convertible subordinated notes (1971 - \$49,900,000 + \$27.50 1970 - \$50,000,000 + \$27.50).....				3,963,000	N/A
50	5 1/2% convertible subordinated notes (\$4,000,000 + \$28.72).....				1,815,000	1,818,000
	Add assumed exercise of stock options using the treasury stock method:				139,000	N/A
51	\$1.20 convertible preferred stock.....				2,000	2,000
52	Common stock.....				17,000	N/A
53	Total.....				\$19,545,000	\$15,414,000
54	Fully diluted earnings per common share based on income before extraordinary items (item 46 + item 53).....				\$ 1.19	\$.38
	Items excluded from computation, where effect would be anti-dilutive:	N/A	N/A	N/A	N/A	
55	Assuming conversion of preferred stock					
56	Item 6 above.....					\$ 4,598,000
	Add preferred stock dividend requirements (per statement of consolidated income).....					3,795,000
57	Total.....					\$ 8,393,000
58	Item 2 above.....					13,594,000
59	Add assumed issuance of common stock (shares X 1.25).....					3,914,000
60	Total.....					\$17,548,000
61	Earnings per common share based on income before extraordinary items (item 57 + item 60).....					\$.47

(Continued) - 3

DISCLOSURE[®]

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

DISCLOSURE[®]

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

GAP CORPORATION
AND CONSOLIDATED SUBSIDIARIES
COMPUTATION OF EARNINGS PER COMMON SHARE
FOR THE FIVE YEARS ENDED DECEMBER 31, 1974

Exhibit 14

Item No.	Fully Diluted Earnings Per Common Share	Year Ended December 31,				
		1974	1973	1972	1971	1970
	Based on Income Before Extraordinary Items (continued):					
	Items excluded from computation, where effect would be anti-dilutive (continued):					
	Assuming conversion of 5% convertible subordinated notes	N/A	N/A	N/A	N/A	N/A
62	Item 6 above					
63	Add interest expense, less income tax effect, for 5% notes.....					
64	Total.....					
65	Item 2 above.....					
66	Add assumed issuance of common stock.....					
67	Total.....					
68	Income before extraordinary items per common share (item 64 + item 67).....					
	Assuming conversion of 5 1/2% convertible subordinated notes	N/A	N/A	N/A	N/A	\$ 4,598,000
69	Item 6 above.....					112,000
70	Add interest expense, less income tax effect, for 5 1/2% notes.....					
71	Total.....					\$ 4,710,000
72	Item 2 above					13,594,000
73	Add assumed issuance of common stock (\$4,000,000 ÷ \$28.72).....					139,000
74	Total.....					13,733,000
75	Income before extraordinary items per common share (item 71 + item 74).....					\$.34*

* Anti-dilution less than \$.01.

Notes:

- 1 - The weighted average number of shares of common stock outstanding was computed by adding the number of shares outstanding at the beginning of the year and at each month-end and dividing such aggregate amount by thirteen for the years 1973 to 1970, and at the end of each 10-day period and dividing by 36 for 1974.
- 2 - A computation including the addition of the number of shares to be issued (treasury stock method) upon the assumed exercise of options granted subsequent to May 31, 1969 for the purchase of shares of common stock results in no change in the amount of primary earnings per common share.

(Concluded) - 4

EXHIBIT C(2)(5)

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK, NEW YORK 10004

March 24, 1975

To the Board of Directors of
GAF Corporation:

At your request, we have read the description of the facts set forth in a note to financial statements included in your Form 10-K for the year ended December 31, 1974 relating to the change in method of accounting for dyestuffs and pigments inventories from the average cost method to the last-in, first-out (LIFO) method. We hereby advise you that we concur with such change in accounting.

Yours truly,

Haskins & Sells

END